Next 8 Page(s) In Document Exempt

Economic Intelligence Weekly Review

26 October 1978

Secret

ER EIWR 78-043
26 October 1978

Copy 006

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900040002-6

SECRET

25X1

ECONOMIC INTELLIGENCE WEEKY REVIEW

26 October 1978

25X1

SECRET

25X1

WEST GERMANY: MOTIVATIONS AND OBJECTIVES FOR EMS *

West German Chancellor Helmut Schmidt is intent on early implementation of the proposed EC exchange rate stabilization scheme, commonly referred to as the European Monetary System (EMS). At the same time, he appears determined to mold the EMS to German specifications. Schmidt is pressing for what amounts to an enlarged version of the existing European currency snake, a system that forces weak currency countries to assume more of the burden of adjusting economic policies than would the type of arrangement advocated by the United Kingdom, Italy, and possibly France. To encourage participation by the weaker EC countries, the West Germans presumably will have to be more amenable to increasing the credits available for intervention and balance-of-payments assistance. Although the Chancellor wants to launch EMS in January 1979 even if the United Kingdom and Italy do not join, he probably would agree to a short delay if their participation were thereby assured.

Schmidt's objective, widely shared by FRG political and business leaders, is to shield West Germany from the damaging effects of fluctuations in European exchange rates. These fluctuations stem from disparate EC economic performances and have been aggravated by speculation against the dollar. The Chancellor realizes that, while EMS may not stop the rise of the deutsche mark vis-a-vis the dollar, it would at least help protect West German competitiveness within the EC. Equally important, Schmidt hopes that the fixing of exchange rates will revive momentum toward European unification by providing the impetus for complementary economic policies among EMS participants.

While the Chancellor doubtless concedes the real posibility that EMS will not work, he believes the risks of failure are outweighed by the risks of doing nothing. In his view, economic and political conditions are much more conducive to success now that when previous attempts were made to fix EC exchange rates. Inflation rates and current account balances are more in line than at any time in the recent past, and Community leaders appear more willing to put their economic houses in order.

25X1

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900040002-6

How the EMS would operate is not yet clear. If West German prescriptions on technical adjustments and policy direction prevail, the impact on the EC would be deflationary, at least in the short run. In the longer run, of course, the West Germans expect their prescriptions to lay the groundwork for improved economic growth.

The Proposed EMS

To ensure rapid progress toward implementation of the European Monetary System, EC leaders at their summit meeting in July set a December deadline for agreeing on specifics. The basic elements of the system call for:

- Fixing margins for intra-EC exchange rate fluctuations.

- Establishing a European Monetary Fund (EMF) to incorporate new and exisiting credit facilities.

- Creating a European Currency Unit (ECU *) backed by gold, dollars, and EC currencies to be used for intra-EC central bank settlements.

Members of the EMS could include the present members of the truncated European currency snake—the Benelux nations, Denmark, Norway, and West Germany—along with the United Kingdom, France, Italy, and Ireland. In additions to the EC Nine and Norway, other countries such as Austria and Switzerland might be invited to join. Presumably an effort would have to be made to accommodate Greece, Spain, and Portugal once they join the EC.

German Motivations

Domestic Considerations

Politically, Schmidt has a free hand to press his plans for EMS; no organized domestic opposition exists. Last summer, the economic spokesman for the opposition CDU/CSU—Franz Josef Strauss—had voiced concern that EMS could increase inflationary pressures and force Bonn to pay for large new resource transfers to weaker EC countries. Industrialists, private bankers, the Bundesbank, and even members of the coalition partner Free Democratic Party raised similar objections. Schmidt heeded these objections and allayed their fears. Informed public opinion generally supports a system that would help stabilize the deutsche mark against other EC currencies. Moreover, most of the citizenry see the initiative further promoting the international stature of West Germany.

* The value of the ECU, determined by a weighted average of the value of EC currencies, would at present equal about $1.30.

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900040002-6

Schmidt's drive for EMS stems partly from his concern over the recent diminished performance of the West German economy. In 1977 real GNP advanced only 2.6 percent, and growth this year will be at least 3 percent. Industrial production grew 2.9 percent in 1977 and in first half 1978 was up only 1 percent from a year earlier. Unemployment remians high—hovering around 4.5 percent of wage and salary workers for the past two years. The brightest spot in the economy is the low rate of inflation, currently less than 3 percent.

Weaker export performance is a factor in the growth slowdown. During the 10 years prior to the 1973 oil embargo, real GNP grew an average 4.6 percent annually, with export volume booming along at 9 percent. The export sector now amounts to 27 percent of GNP and absorbs about 35 percent of manufacturing output. The recent slowdown in the expansion of world trade held West German export growth in volume terms to 4.9 percent last year and will contain it to about 5 percent this year. The FRG's share of world exports has fluctuated slightly during the 1970s but apparently more in response to cyclincal factors than to the rising deutsche mark.

The mark appreciation has not yet demonstrably hurt aggregate West German exports, although industries dealing in more standardized goods have fared less well than those specializing in high technology products. German export industries have benefited from the lower deutsche mark prices of imported materials and intermediate products, which have slowed the rise of production costs. German exporters nevertheless have had to shave profit margins to maintain their markets. During the third and fourth quarters of 1977, export prices in terms of deutsche marks actually declined, For the year as a whole, export prices rose at only one-half the rate of wholesale prices for manufactures. Exporters apparently cut profits to the limit; in first half 1978, export prices rose at the same rate as domestic wholesale prices.

Profits on domestic sales also have suffered because of increased import competition. Import prices in deutsche marks in second quarter 1978 were 6.5 percent below the level of a year earlier. Imports of finished industrial and consumer goods are taking a larger share of domestic sales, contributing to unemployment in such industries as textiles and clothing, watches, machine tools, and shipbuilding.

Schmidt wants to stem the flow of dollars into deutsche marks, a flow that is threatening both domestic inflation goals and trade competitiveness. Schmidt maintains that this trend makes more difficult the Bundesbank's task of controlling the domestic money supply and bids up the value of the mark beyond the level dictated by relative economic performance.

The Chancellor believes that his EMS initiative will have positive effects, certainly compared with doing nothing at all. Any success in stabilizing intra-EC exchange rates will help to maintain West German competitiveness; the Community accounts for more than 45 percent of West German exports. The Chancellor further believes that private investment will be spurred by reducing uncertainty in exchange markets. By tying the EC currencies together and bringing the economies in line with one another, Schmidt hopes to lessen concentration on the deutsche mark by speculators moving out of dollars.

Foreign Consideration

Equally as important in Schmidt's thinking as the short run economic impact of EMS is his concern over the long-term economic and political future of the European Community. He believes that progress toward greater EC economic integration has come to a halt. Schmidt contends that diverging economic policies since the collapse of the Bretton Woods system in 1971 have led to unstable exchange rates, which in turn have inhibited trade within the EC customs union and perverted operations of the Common Agricultural Policy. He is convinced that the economic gains achieved by the Community thus far will be jeopardized unless EC members move toward complementary monetary and fiscal policies. His hope is that EMS will provide the impetus to greater policy coordination. The West Germans formerly insisted that policy coordination precede exchange rate harmonization but apparently are now willing to see the process reversed, partly because they are encouraged by anti-inflation policies being undertaken in France, the United Kingdom, and Italy.

Schmidt and his postwar predecessors have consistently maintained that West Germany's political and economic future, as well as its military security, is linked to Western Europe and the Atlantic Alliance. This philosophy is now firmly established within the West German electorate. At a time when European confidence in US willingness and ability to continue its leadership role is shaken, Schmidt feels he cannot sit idly by watching what he believes is the gradual weakening of the Community.

Schmidt's concern for the EC is well grounded. No substantial progress toward increased Community cohesiveness has occurred since 1969. In December of that year EC heads of government first supported in principle a proposal by then West German Chancellor Brandt to create an Economic and Monetary Union (EMU). The EC approved in 1971 a general framework outlining the stages toward EMU, but the first stage—a 1.2-percent margin of fluctuation for intra-EC exchange rates—never got off the ground. It fell victim to the overpowering international monetary crisis associated with the collapse of the Bretton Woods system. In March 1972, the Community again attempted to launch EMU by fixing intra-EC exchange rate margins. By May 1972, even Britain and Denmark—aspiring EC members—had joined the European Joint

Float, or snake. Severe pressures on the pound forced Britain out only 6 weeks later; Italy dropped out in February 1973 and France in January 1974.

The trend toward increasing integration of the EC economies—as reflected in the share of member country exports going to one another—has stalled in recent years. When the customs union first began operating in 1958, the members on average sold 34 percent of their exports within the Community. This share rose steadily to a peak of 53 percent in 1973; by 1977, it was down to 51 percent. The increase in demand from OPEC countries has been key factor in the shift.

The Common Agricultural Policy also has gone awry. Truly common prices are a thing of the past, as is free intra-Community trade in agricultural commodities. To insulate the CAP from exchange rate movements, the EC created "green currency rates" and monetary compensatory amounts (MCAs). As a result of the green currency rates, agricultural support prices are about 40 percent higher in West Germany than in Great Britain. Because of the MCAs, which are intended to offset unequal support prices, Britain receives subsidies on agricultural imports from other EC countries while West Germany taxes such imports.

Timing the Initiative

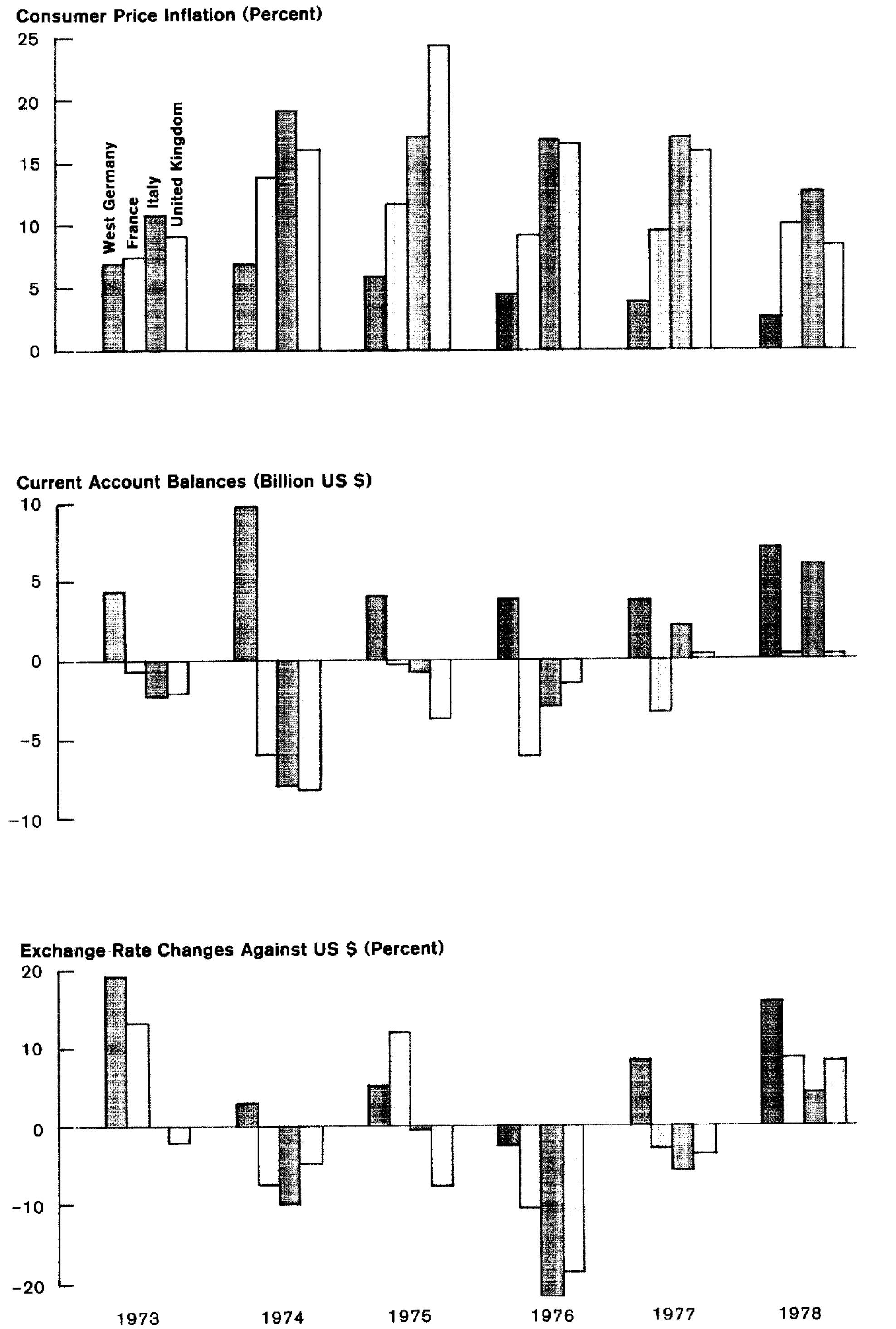
Schmidt believes recent converging trends in the EC economies present a prime opportunity to initiate EMS. The huge inflation differentials of a few years ago have narrowed. The gap in consumer price increases has closed from 18 percentage points in 1975 to 10 percentage points this year. The current account situation positions also have converged. In 1974, the West Germans ran a current account surplus of $9.8 billion, where as the three other major EC members ran deficits of from $5.9 billion to $8.2 billion. In contrast, in 1978 the performance of all four will probably range from equilibium to a $7 billion surplus. Finally, exchange rates are now moving more closely in line with one another.

Recognizing that French support is a prerequisite for a successful EMS, Schmidt waited to announce his initiative until after the French general elections last March. Schmidt certainly would not have proposed EMS had the French Communist/Socialist coalition come into power. Now both he and President Giscard have considerable political leeway to move toward greater EC cohesion; Schmidt does not face an election until 1980 and Giscard until 1981.

Exchange Rate Objectives

Chancellor Schmidt's initial pronouncements on a new exchange rate system were short on specifics, creating concern within his cabinet and the Bundesbank that he

Major EC Countries: Economic Indicators



577652 10-78

might be considering a system too costly for Germany. Bundesbank President Emminger and Economics Minister Lambsdorff feared the potential inflationary impact of a system that could force West Germany to bear the main burden of economic adjustment. In addition, the Bundesbank feared losing control over intervention policy to an EC entity. Over the past few months the Chancellor has made clear that he is seeking a snake-type, or parity-grid, arrangement for fixing currency margins—a system that would minimize the risk to German economic policy preferences—and has assured the Bundesbank that it would retain control over foreign reserves and intervention policy. In addition to assuaging their fears over the potential inflationary impact of the system, Schmidt has convinced both Emminger and Lambsdorff that EMS could help foster greater European—and thus West German—economic strength.

The West Germans are pressing other EC members to accept a parity-grid arrangement for defining FC exchange rate limits because it tends to put much of the burden of economic policy adjustment on the weak currency countries even though intervention operations would be symmetrical. The British, Italians, and possibly the French are urging adoption of the so-called basket approach because it is more apt to force a strong currency country to take the brunt of both currency intervention and policy adjustment. Although liberal credit mechanisms could help offset the bias of the parity-grid system, the West Germans apparently are making no distinctions between the size of credit facilities under the two alternative schemes.

Parity-Grid

Under the parity-grid scheme advocated by Schmidt, each currency would have a fixed value vis-a-vis every other participating currency. As in the existing snake, the limiting values for a currency would be defined by maximum and minimum cross rates with every other currency. In the EMS, however, cross rates would be expressed terms of ECUs. The size of the margins has not yet been determined. Schmidt apparently will be flexible on this point, realizing that the snake margins of 1.125 percent on either side of the central rate may be too narrow for France, Italy, and the United Kingdom to accept.

The system would guarantee, for example, that when the deutsche mark reaches a maximum value in relation to the Belgian franc, the franc has reached its minimum value in relation to the deutsche mark. At this point, both West Germany and Belgium would have to intervene in exchange markets by selling deutsche marks and buying Belgain francs. As in the existing snake arrangement, some intervention in dollars also would occur.

Basket Approach

Under the basket approach, fluctuation margins also would be defined in terms of ECUs, but the value of the ECU would not be fixed. It would be determined daily as a weighted average of all EC currencies. As a result, the permissible fluctuation for each currency around the ECU in terms of cross rates would change each time the value of the currency changed. In this system, the deutsche mark could be at the top limit of its margin vis-a-vis the ECU without any other currency being at the bottom.

In this situation, Bonn would be forced to intervene and ultimately to take relationary measures to contain the rise in its currency. With no country at the bottom limit, there would be no requirement for others to intervene or ultimately to deflate.

For domestic political reasons Schmidt will not endorse the basket system because it probably would require Bonn to bear the brunt of currency intervention, with resulting inflationary pressures at home. The parity-grid system, on the other hand, clearly identifies those weak currencies requiring support through intervention and/or through adoption of more restrictive economic policies. As a practical matter, if exchange rates are to remain relatively fixed, the burden of policy adjustment would fall on those countries experiencing high inflation and persistent current account deficits. Schmidt is prepared to accept exchange rate changes within the system in preference to maintaining parities through large-scale intervention.

The thorniest issue between West Germany and its potential EMS partners involves burden sharing to combat upward pressures on the deutsche mark resulting from speculation against the dollar. West Germany's partners want to assure that Bonn is forced to carry most of the intervention burden when pressures arise primarily out of flight from dollars into deutsche marks rather than out of basic differences in economic performance among participating countries. Bonn strongly prefers an arrangement that minimizes its intervention activities and, ultimately, the risks to West German price stability.

Other Aspects of EMS

The West Germans apparently are still working out their views on how the proposed European Monetary Fund should operate. Decisions on this issue are not so urgent as on the exchange rate scheme because most EC countries agree that a two-year period will be needed to work out all the arrangements.

The West Germans will probably agree to establish at the start of EMS the much publicized $32.5 billion credit fund. For the moment, however, Bonn seems to be pushing for a scheme that would provide little increase in credit beyond what is now available under existing FC facilities. Very short-term monetary support credits—30 days or less—would be unlimited, as they are under the present snake. Bonn is resisting pressure to increase the amount and duration of longer-term intervention credits. It is showing somewhat more flexibility with regard to increasing the existing $4.9 billion credit fund for balance-of-payments purposes.

Realistically, the West Germans must recognize the need to buy time for adjustment by providing additional credit both for currency intervention and balance-of-payments support. They will, however, try to hold down such financing to avoid supporting what they regard as foreign profligacy and to minimize inflationary effects.

Schmidt is not yet prepared to link establishment of EMS with the issue of intra-EC resource transfers, a link being urged by the United Kingdom and Italy. Discussions of budget transfers are taking place in an EC committee apart from EMS negotiations. While Schmidt is not averse to such transfers in principle, he insists that the exchange rate stabilization scheem must come first. If EMS members later show willingness to make the system work by coordinating economic policy, Schmidt would be willing to have West Germany accept a large share of the burden of EC budget transfers to help offset regional economic disparities within the Community. In the meantime, the West Germans may agree to increased capitalization of the European Investment Bank, which provides loans for EC regional development projects. [redacted]

25X1

25X1

* * * * *

MEXICO: MANUFACTURED EXPORTS REBOUNDING STRONGLY

A combination of petroleum resources, government incentives, higher technology, and growing business savvy should enable Mexico to post dramatic gains in the export of manufactures through the early 1980s.

Mexico now ranks a distant fifth among LDC exporters of manufactured products—behind Hong Kong, South Korea, Taiwan, and Brazil. Its foreign sales are less than one-half those of fourth-ranked Brazil. Backed by new government incentive programs, Mexican businessmen are moving aggressively to recoup foreign sales lost in recent years, especially in the key US market. Moreover, Mexico is devising an economic development program, to be financed by a growing tide of "petropesos," that will give a major push to export-oriented industries.

Export Record

Increased US demand, the favorable impact of the August 1976 float of the peso, and the restoration of economic stability under President Lopez Portillo are sustaining the current advance in Mexico's manufactured exports. Foreign sales of these products in first half 1978 reached nearly $1 billion, up 20 percent over first half 1977. Exports of manufactured goods are advancing along a wide front:

- Petrochemical exports, led by ammonia shipments, are soaring as new plants came on stream.

- Overseas sales of machinery, steel, and inorganic chemicals are featuring the recovery in industrial exports, while glassware, clothing, and books are leading the advance in consumer goods exports.

- Foreign sales by border industry plants, especially of electronic items, are expanding after three years of depressed activity.

Nearly one-third of Mexico's industrial exports originate from firms operating under the border industry program. Initiated in mid-1966, the program was designed to reduce the serious border unemployment problem, which has been aggravated because of the end of the bracero program in 1964. The border industries consist largely of US-owned, labor-intensive manufacturing plants operating under special US tariff concessions. Border industry exports (net of imported US components) have jumped $440 million since 1970, 35 percent of the overall export gain. Assembled goods—70 percent electric and electronic items and 10 percent wearing apparel—are marketed principally in the United States in competition with South Korean, Taiwanese, and Hong Kong products.

Mexico: Manufactured Exports

	1970	1977	Average Annual Percent Growth 1971-77
	Million US $		
Total	**473**	**1,742**	**20**
Nonborder industry	392	1,217	18
Nonelectrical machinery	30	99	19
Inorganic chemicals	40	94	13
Textile yarn and thread	16	74	24
Glassware	8	53	31
Electrical machinery	24	43	9
Pharmaceuticals	25	40	7
Steel tubes	9	39	23
Motor vehicles and parts	17	38	12
Tools	9	37	22
Office machinery	3	36	43
Cotton fabrics	4	31	34
Books	18	31	8
Resins	13	30	13
Clothing	9	22	14
Other	167	550	19
Border industry (value added)	81	525	31

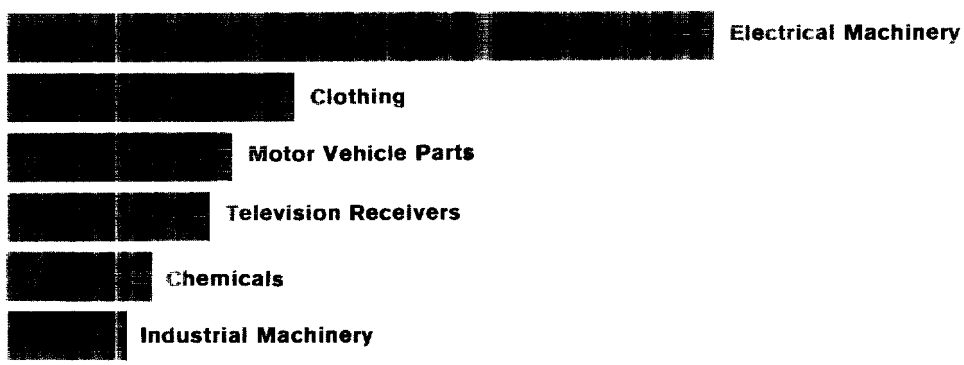
Outside the border industry program, heavy industrial goods dominate Mexico's exports of manufactured products; these go mainly to the United States, reflecting well-established market links. Foreign sales of capital goods have increased by $300 million since 1970, one-fourth of the overall gain. Heavy machinery (engines, pumps, transformers) led the advance, increasing from $63 million to $179 million. Exports of intermediate products (industrial chemicals and textile fibers) increased by $290 million. Exports of consumer goods, such as glassware, increased by $200 million, although still ranking behind exports of these commodities by Far Eastern LDCs.

Market Penetration

United States

Despite Mexican attempts at export market diversification, the importance of the US market has increased in the 1970s. The United States in 1977 absorbed three-fourth—$1.3 billion, net, of imported US components—of Mexico's manufactured exports compared with 68 percent in 1970. Mexico now supplies 3.0 percent of US imports of manufactured goods, compared with 1.7 percent in 1970, carving out larger slices in several major product markets. Electrical machinery and components, account for 10 percent of the $6.4 billion in US imports of these items. Although

Mexico: Commodity-Market Penetrations in the United States, 1977[1]
Percent Share of Import Market



1. Market-Commodity. Includes exports by border industries
577648 10-78

Mexico has lost some ground in this particular line, Mexico is still the leading LDC supplier to the United States, selling substantially more than Brazil, for example, largely because of close ties with major US industrial firms. Other manufactured products where Mexico has more than 3 percent of the US import market include clothing, textile fabrics, and automotive parts.

Other OECD

Mexico has achieved little success in selling its manufactures in other developed country markets. Last year, exports to Western Europe, Japan, and Canada totaled $130 million, accounting for less than 1 percent in each of these markets.* Most of the sales growth reflects the inroads made by Mexican automotive parts in the West German, French, Japanese, and Canadian markets as a result of government efforts to force foreign-owned vehicle manufacturers to partially offset their imports of parts with exports.

Less Developed Countries

Even though Mexican exports to Third World markets have tripled since 1970 to nearly $300 million, the LDC share of Mexico's exports has slipped to less than 17 percent. Latin America remains by far Mexico's predominant LDC sales arena as

* Intra-EC trade is excluded from market share calculations in this article.

Mexico: Manufactured Exports by Destination

	1970	1977 [1]	Average Annual Percent Growth 1971-77
	Million US $		
World	**473**	**1,742**	**20**
OECD	373	1,438	21
United States	324	1,306	22
EC	28	85	17
Japan	7	12	8
Other	14	35	14
LDCs	97	292	17
Latin America	75	219	17
Far East	1	24	57
OPEC	21	49	13
Communist countries	2	12	22

[1] Estimated.

tariff concessions negotiated through the Latin American Free Trade Association are used to break into new markets. Mexican batteries, for example, have gained ground in numerous Central and South American markets after preferential tariffs were implemented in 1975. Mexico has established a toehold in the Far East, although this market still only buys slightly more than 1 percent of Mexican exports.

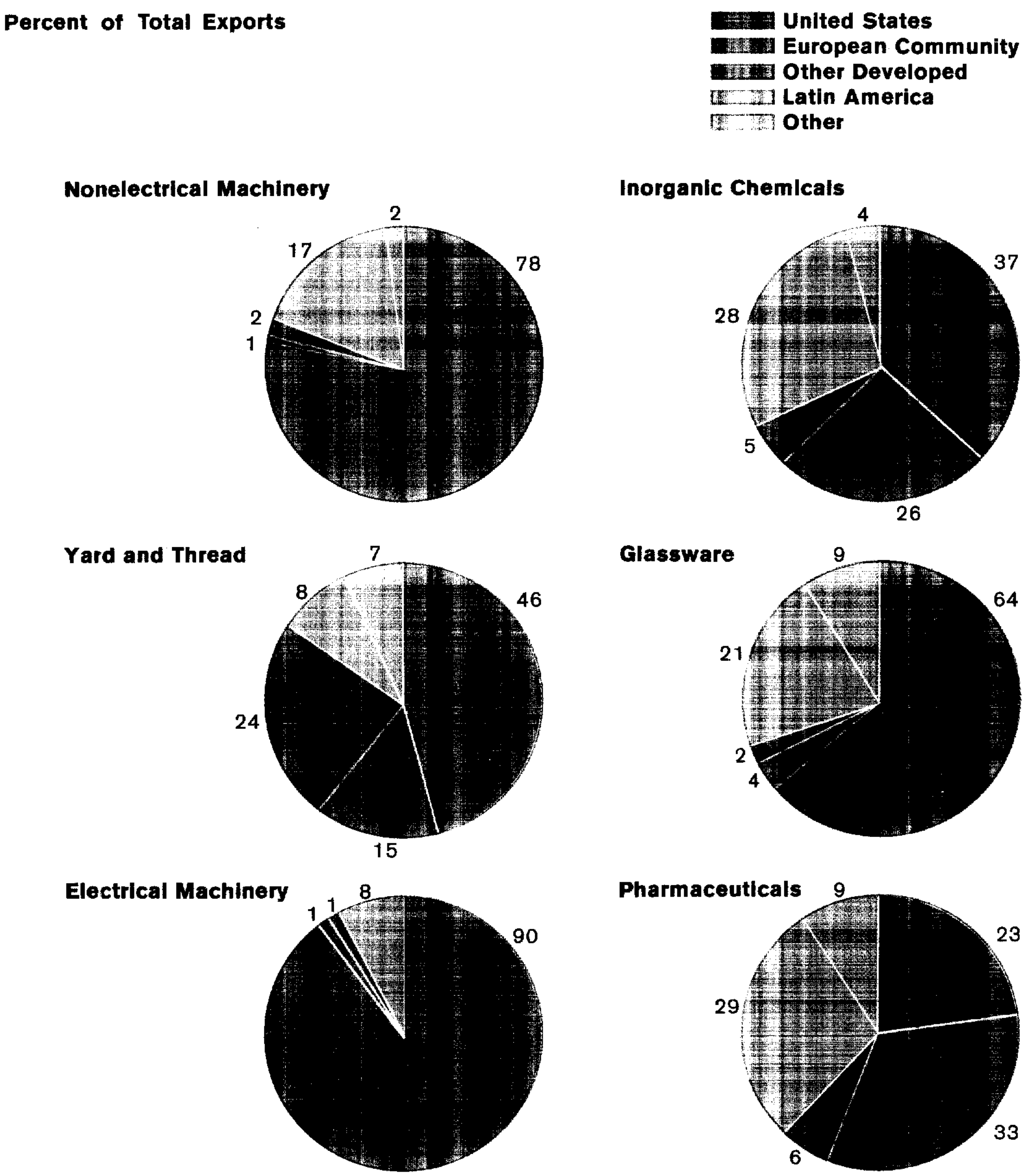
Competitive Factors

Mexico's ability to compete in world markets deteriorated between 1970 and 1976. Upon assuming office in December 1970, President Luis Echeverria attempted to change his image as a political hardliner and in doing so abandoned many hitherto successful economic strategies. In particular, he boosted wages substantially faster than rises in productivity and, in some years, even faster than needed to maintain real wages. Between 1970 and 1976, Mexican labor productivity increased by only 1 percent annually in the industrial sector, substantially less than gains achieved in South Korea and Brazil.

As a result of wage push, average dollar prices for manufactured exports rose 13 percent yearly in 1970-76; these prices were nearly one-fifth above international levels in 1975. Mexico's fixed exchange rate policies also hurt during this period. Because domestic inflation far exceeded the rates prevailing in major foreign markets (notably the United States), the price-adjusted trade-weighted exchange rate for Mexican manufactured goods was 17 percent higher in third quarter 1976 compared with first quarter 1973. Exporters were further affected by the import licensing system, which restricted access to lower cost foreign inputs.

Mexico: Selected Exports by Destination, 1977

Percent of Total Exports



577647 10-78

Moreover, according to the Banco Nacional de Comercio Exterior, Mexico's exports lost ground because of the failure of individual manufacturing firms to adapt their products to changing demands, promote their wares aggressively, and meet delivery dates. Manufactured exports aside from the border industry hovered at the $1 billion level in 1973-76. Even border industry exports stagnated at the $500 million level, as a result of soaring Mexican wage rates, the US recession, and political uncertainty.

Government Policies

Since Lopez Portillo assumed power in December 1976, Mexico has put increasing emphasis on export expansion. Last year, the government liberalized the use of import licenses by exporters to improve their price and quality competitiveness. In April 1977, it also reinstated indirect tax rebates for exporters of manufactured products, which had been discontinued following the float of the peso in August 1976. Low-interest export financing through the Bank of Mexico Fund for the Export of Manufactured Products (FOMEX) increased 50 percent, to $600 million in 1977. The government also centralized promotional activities in the Secretariat of Commerce to better support the new export strategy.

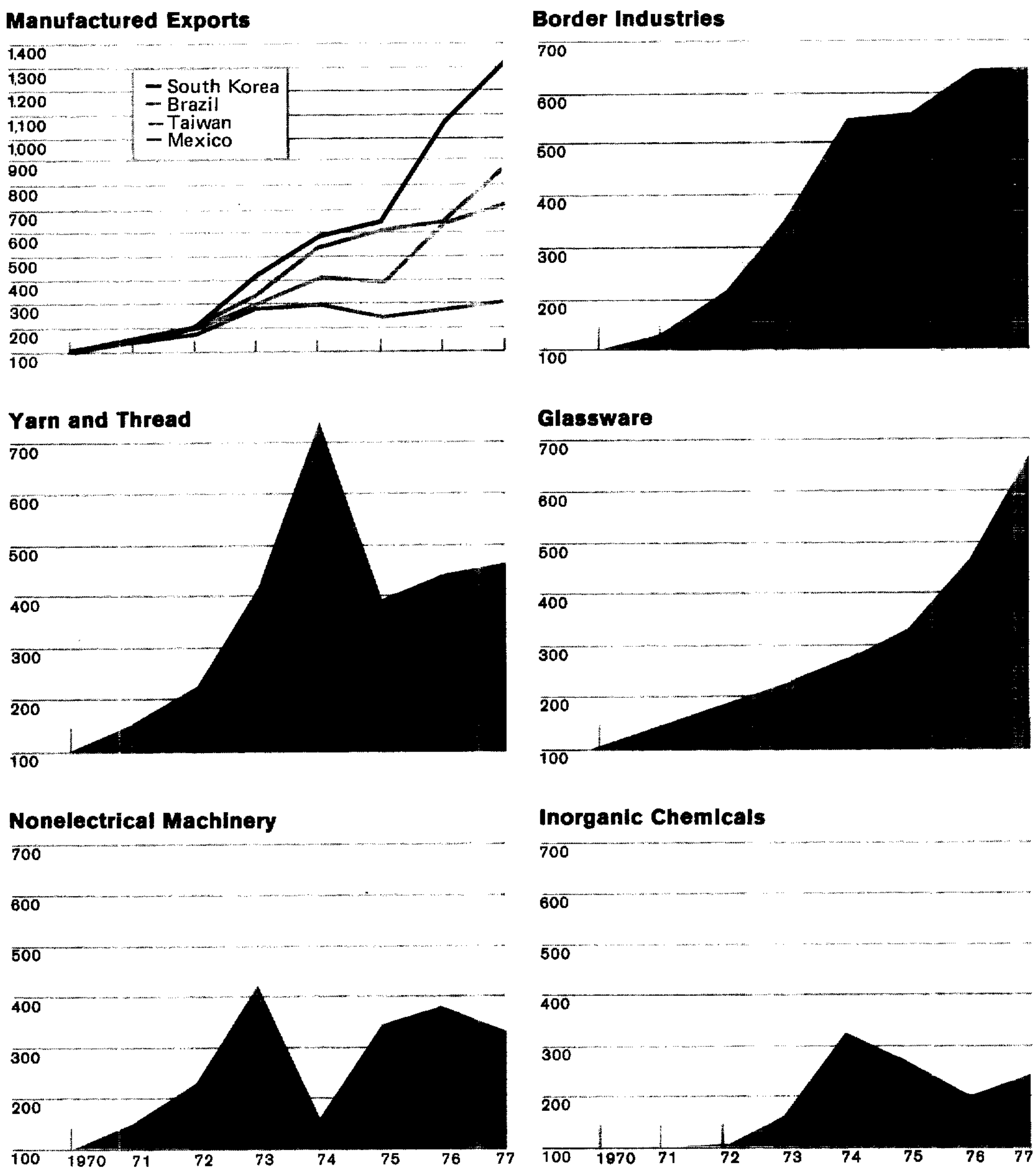
The government is also rejuvenating the border program. Investor interest in the program has been quickened by (a) Lopez Portillo's support, (b) rising US consumer demand, and (c) the general improvement in the competitiveness of Mexican goods caused by rapid appreciation of the Japanese yen in the last 18 months. The floating of the peso in the fall of 1976 and the subsequent 18-percent decline in the price-adjusted trade-weighted exchange rate have recaptured most of the advantage of low Mexican wages for border industry. As a result, 10 new border assembly plants were established in January-April 1978, with employment rising to 85,200 persons compared with 78,400 in the same period last year.

Nonborder industries are also prospering. In the first four months of 1978, 4,605 tax rebate certificates valued at $50 million were issued, compared with 6,668 totaling $80 million in all of 1977. Technological development have been a factor in this pick up. Cydsa, a diversified Mexican chemical producer, last year resumed synthetic fiber exports to the United States as a result of acquiring advanced technology from Mitsubishi; the new technology cut manufacturing costs by 30 percent. The infusion of sophisticated process technology, provided by Phillips Petroleum, has enabled Negromex to begin large-scale exports of carbon black to tire manufacturers throughout Central America this year.

Multinational corporations, under government prodding, are the leading contributers to Mexico's current export advance. Volkswagen, for example, will now fill

Mexico: Commodity Export Trends

US Dollar Value Index: 1970=100



Note change in scales

577649 10-78

orders for the Beetle from its Mexican subsidiary. We estimate that multinational firms exported a minimum of $850 million in manufactured products last year, including more than 60 percent of the exports of transportation equipment, chemical products, and electrical machinery.

Mexican manufacturers are also piggybacking on the worldwide distribution systems of parent companies of foreign associates to bolster exports and diversify markets. Epsna, a Mexican producer of valves and pumps, has recently cracked the Persian Gulf market through a marketing agreement with a US manufacturer of oil-drilling equipment. Mexico has also turned to US wholesalers and brokers to improve distribution and service capabilities. Recently a group of footwear manufacturers formed a trading company to compete more effectively for large export orders. The Bank of Mexico is supporting the private sector advance with increased export credits. Preferential financing through FOMEX, for example, rose to $220 million through April, up 8 percent over the same period in 1977.

Great Expectations

If the government maintains export incentives and realistic exchange rates, Mexico's manufactured exports should approach the $3 billion mark by the early 1980s. This reflects the new commitment to export expansion, the use of advanced technology, the growing sophistication of marketing policies, and increased credit support for exports. Shipments of industrial machinery, resource-based products (batteries, copper wire), glassware, automotive parts, and chemical products are likely to lead the near-term advance. Manufacturing firms have already shown the ability to diversity product lines and penetrate new markets.

Backed by huge oil reserves, Mexico is fostering the growth of new energy-intensive export industries. Large public investments and preferential energy prices are stimulating the expansion of steel, petrochemical, and fertilizer capacity. These industries should grow rapidly over the next five years; output of petrochemicals is slated to increase by 30 percent annually and steel production, by 10 percent. PEMEX has 30 petrochemical plants under construction, nine of which are large-scale operations geared for exports.

The government's massive industrial development program, to be financed by a growing tide of petropesos, will ultimately include construction of new industrial centers near Gulf and Pacific coast ports and establishment of export-oriented industries away from Mexico City, Monterrey, and Guadalajara. However, the establishment of efficient, labor-intensive export industries and new population centers will be slowed by the lack of infrastructure and trained labor. The sharp rise in exports almost surely will put added strain on US-Mexican relations in the 1980s. Access to US markets will become increasingly important to Mexico at a time when US sensitivities to rising competition from labor-intensive Mexican exports will be growing. [redacted] 25X1

* * * * *

EGYPT: EFFECTIVE ARAB SANCTIONS UNLIKELY

Radical Arab states will push for economic sanctions against Egypt in the wake of any Egyptian-Israeli peace treaty. Punitive actions, which almost certainly will be discussed at the Arab summit meeting tentatively scheduled in Baghdad for early November, could include (a) the reduction of—or a complete cutoff of—economic/military aid; (b) the expulsion of Egyptian workers from Arab states; (c) a trade embargo; and (d) the severing of tourist ties.

Sanctions would be toothless without the participation of Saudi Arabia and Kuwait, which are the primary Arab sources of financial support to Egypt. We have no evidence that either of the two is planning any moves. The Saudis, for their part, will be reluctant to join in measures that would undermine the Sadat government or further fracture Arab ranks. Indeed, Saudi Arabia apparently is trying to head off any calls for sanctions. In our judgment, President Sadat will not be influenced by mere gestures of the radical Arab states.

Aid: The Saudi and Kuwaiti Lever

25X1

Saudi Arabia and Kuwait have been far and away the largest aid donors to Egypt since the 1973 war, providing $4.6 billion of the $6.2 billion in Arab economic aid. [redacted] 25X1 While the Egyptian foreign payments situation has eased this year compared with the recent past, the loss of Saudi and Kuwaiti support would be a severe blow and would limit development prospects. As for the military, Cairo's ability to purchase foreign weapons depends largely on Riyadh's willingness to foot the bill. Although an aid cutoff is unlikely, Saudi Arabia and Kuwait could evidence their displeasure by lesser measures [redacted] 25X1

25X1

The key radical Arab states—Iraq, Libya, and Algeria—are currently providing no financial support of any sort to Cairo. Between the 1967 and 1973 wars, Libya was one of Egypt's major Arab aid donors, just behind Saudi Arabia and Kuwait. Angry at Egyptian acceptance of a cease-fire in 1973, however, Libya pledged only $10 million in 1974 and has provided no help since. Iraq has limited its post-1973 pledges to $155 million (in 1974-75), all of which has been used.

Egyptian Workers: Sanctions Cut Both Ways

If Egyptian workers in other Arab countries were expelled, Cairo would suffer the loss of remittances, and the employing countries would face severe shortages of Arabic-speaking workers and disruption to their development programs. In the case of Libya, Egyptian workers comprise a major share of skilled workers, teachers, and bureaucrats essential to run the country. Shortages of highly skilled technicians and construction workers in Egypt would ease, although Cairo at this juncture would prefer the foreign exchange.

Estimates of the total number of Egyptian workers abroad range as high as 1.4 million, equal to about 10 percent of the Egyptian labor force. Last year these workers remitted an estimated $1.5 billion in foreign exchange, the equivalent of 70 percent of Egyptian merchandise exports. Most of the workers are located in the conservative Persian Gulf states. Estimates of Egyptian workers in Libya range from 50,000 persons up to several hundred thousand.

Trade and Travel Sanctions: Little Impact

Trade sanctions by Arab states would have minimal impact on Egypt's economic well-being. Egyptian exports to all Arab states amounted to $190 million in 1977, about 9 percent of total exports; imports from these countries were only $150 million, 3 percent of the total. Saudi Arabia is the largest Arab trading partner, accounting for $35 million of Egyptian exports and $30 million of imports. A trade embargo might have a secondary impact by limiting foreign investment in Egyptian projects aimed at producing goods to export to other Arab countries. Cairo has used the prospect of access to the Arab market as an inducement to attract foreign investors.

Travelers from Arab countries made up about 55 percent of foreign visitors to Egypt last year and probably accounted for a similar share of the $650 million in foreign exchange receipts from tourism. Again, Saudi Arabia was the most important Arab country, accounting for 12 percent of foreign visitors. Travel restrictions would put a temporary dent in tourist earnings. Balanced against this loss, however, would be the likely prospect of increased tourism once travel links were opened to Israel. Egypt should be able to attract some of the large number of US and European tourists who in the past went exclusively to Israel.

Egyptian Reaction

Even though action solely by the radical Arabs against Egypt could be absorbed with no great difficulty, Cairo would almost certainly initiate some countermeasures of its own. One option would be a debt moratorium on the $10 million owed to the radical Arab states, almost entirely to Libya. Other pinpricks might include a refusal to grant overflight rights, expulsion of the large number of their students now in Egypt, or a cutoff of banking and commercial ties. No appreciable damage would be done to either side if these moves were taken.

In the unlikely event that the Saudis and Kuwaitis should participate in punitive actions against Cairo, specifically in an aid cutoff, the Egyptians would turn to Western donors for additional funds. [redacted] 25X1

* * * * *

ISRAEL: RETURN OF SINAI MEANS LOSS OF OIL *

The prospective return of Israeli-controlled Sinai territory to Egypt would make Israel almost totally dependent on imported oil for its energy needs at least for the next several years. An oil-producing area discovered last year off the Israeli-controlled portion of the Sinai, although it will only save Tel Aviv about $20 million in foreign exchange in 1978, could have supplied most of the country's oil needs by the first half of the 1980s and saved about $500 million a year in foreign exchange. Tel Aviv probably will try to negotiate continued access to at least some of the Sinai's oil and gas resources. Drawing on Egyptian supplies would be cheaper than buying from other, more distant, suppliers. Moreover, oil purchases from Egypt would be symbolic of a major change in political relationships.

The Sinai Stake

The capture of the Sinai oilfields in the 1967 war with Egypt was a boon to the Israeli economy. Output from the Sinai fields, some 100,000 b/d in 1974, made Israel almost self-sufficient in oil. After the 22 September 1975 Sinai II accord, however, all producing fields were returned to Egypt. Tel Aviv then began an intensive exploration program in the remaining Israeli-controlled parts of the Gulf of Suez and the northern Sinai. This effort culminated in 1977 with oil and gas strikes of commercial size.

At present, less than 2 percent of energy demand is filled from sources within Israel proper. Local gas and oil production (excluding the Gulf of Suez) is equivalent to only about 2,000 b/d of oil. Tel Aviv's remaining energy needs are being provided by crude imports of 125,000 b/d, mostly from Iran and Mexico, and by 15,000 (annual average) b/d from the recently discovered Alma field in the Gulf of Suez.

25X1 [redacted]

25X1

Next 2 Page(s) In Document Exempt

CAMBODIA: SELF-IMPOSED ISOLATION ENDING?

Recent international political maneuvering by Cambodia, aimed at garnering support for its dispute with Vietnam and countering charges of human rights violations, may foreshadow efforts to expand trade and aid contacts with Western nations. Since the Communist takeover in 1975, the country has remained almost completely isolated as the Pol Pot regime has eliminated the few vestiges of modern economic life and has attempted to institute a totally communized, autarkic society based on agriculture. Economic dealings with the West no doubt will remain on a small scale since exports for several years ahead already are committed to Communist aid donors, notably China.

Winds of Change

The first sign of Phnom Penh's interest in renewing economic contacts with the West appeared in late 1976 when Cambodia established a small trade office in Hong Kong. Soon thereafter, informal arrangements were made to conduct trade with Japan. These moves marked the beginning of a search abroad for critical goods necessary to rehabilitate the war-devastated economy, especially light manufacturing industries such as plywood, hand tools, and rubber processing. The renewed interest also suggested that agricultural production had recovered sufficiently to meet domestic needs and provide an exportable surplus, largely rice and natural rubber, the country's leading prewar exports.

Cambodia's latest effort at reestablishing Western contacts was an invitation extended to Singapore earlier this year to expand bilateral trade beyond the small amounts of petroleum products Singapore has occasionally supplied since 1976. Phnom Penh's initiative resulted in a barter-type of arrangement involving an exchange of Singaporean manufactured goods for Cambodian foodstuffs such as fish, pepper, and vegetable oil. At Singapore's insistence, petroleum products were excluded from the agreement and will continue to be paid for in hard cash. Apart from the commodity exchanges, the trade deal is significant because it establishes a direct shipping route to the major Cambodian port of Kompong Som and restores Phnom Penh's international telecommunication links to the West for the first time since the Communist takeover.

Postwar Economic Developments

Sketchy information indicates that Cambodian agricultural output has rebounded since 1975 when rice production had dropped to an estimated 800,000 tons, or roughly one-third of prewar production. Successive output gains in 1976 and in 1977 raised production to an estimated 2 million tons. Dislocations associated with the massive and forceful relocation of some 3 million urban dwellers to the countryside undoubtedly impeded a stronger recovery.

The government has moved as rapidly as feasible to effectively employ the new manpower dumped into the rural areas. In the absence of modern agricultural inputs, Phnom Penh has concentrated on highly labor-intensive cultivation techniques to grow rice and other food crops and to replant areas that had been abandoned earlier or damaged by the war. The additional manpower is also being used to repair and construct rudimentary irrigation and flood control facilities.

The growth in rice production enabled the government to resume rice exports on a small scale in 1977, although far short of the 100,000-ton export target (itself only one-half the level of the early 1970s). Strict food rationing remains in force throughout the country, suggesting persistent problems with internal distribution and considerable squeezing of domestic supplies to provide an export surplus.

Little information is available on economic developments outside the rice sector. Some shift in manpower to traditional export crops other than rice has occurred over the past year, perhaps reflecting the government's interest in broadening the base for potential foreign exchange earnings. As for industrial activity, not much seems to be happening other than some processing of rubber and wood products. The government has announced the start of a small industrial development program. According to a March 1978 speech by Pol Pot, the success of this program depends on generating export surpluses in agriculture.

Cambodian foreign trade dealings have been very limited since the renewal of contacts with Hong Kong and Japan. Imports from Hong Kong last year totaled $13.5 million—largely medicines, construction materials, spare parts for generators, and rubber processing and rice husking equipment. Imports from Japan, amounting to only $4 million in 1977, featured structural steel, fishing nets, and agricultural equipment. In both cases, payment was made in hard currencies through a line of credit established with the Peking-owned Bank of China in Hong Kong.

The Peking Connection

Cambodia remains heavily dependent on economic aid from the People's Republic of China and, to a much lesser extent, North Korea and several East European countries. Immediately after the Communist takeover, Phnom Penh and Peking signed an economic and technical agreement that provided Cambodia with $25 million to $30 million in commodity and project aid. Chinese aid commitments hit an estimated $90 million in 1976 and probably continued at this level in 1977, with emphasis on commodity aid and small industry rehabilitation.

Repayment for Chinese commodity aid, which is on concessionary terms, takes the form of raw material exports, particularly natural rubber, timber, and rice; available export supplies of most of these products have been committed well into the future. We estimate that Cambodia imports about $50 million annually in commodities from China; exports are only about $20 million annually. In addition to commodity aid, Peking has furnished a sizable contingent of technical advisers, who serve thróughout the country in small factories and in agricultural projects.

Export Potential Lacking

Growth in trade with the West will be constrained by the limited potential of the Pol Pot regime for earning hard currency. Not only are commodity exports already mortgaged to repay Communist aid but also agricultural surpluses will probably grow at a snail's pace given the low level of technology available. Moreover, according to a recent Phnom Penh broadcast, rice production has suffered a 10-percent loss because of severe flooding.

In these circumstances, the regime may consider soliciting economic assistance from the West, a notion that until now has been anathema to Phnom Penh. Cambodian trade representatives recently [redacted] they would be interested in official aid, but only on Cambodian terms. In any event, to obtain Western aid the Pol Pot regime would almost certainly have to refute charges of violating human rights and improve its current unsavory international image. Phnom Penh's recent offer to allow Western newsmen to visit the country for the first time since 1975 may be the initial step in this direction. [redacted]

25X1

25X1

* * * * *

INDOCHINA: FLOODS HIT FOOD SUPPLY *

Unusually heavy flooding this rainy season has dampened hopes for improvement in food production and consumption in Vietnam, Laos, and Cambodia. Vietnam has been hardest hit and may see its grain import needs rise by 40 to 50 percent over the next 12 months. Laos's rice import requirements will rise slightly, while Cambodia will probably have to cut rice exports. In all three countries, consumers will face reductions in rice rations and the substitution of less desirable wheat and corn.

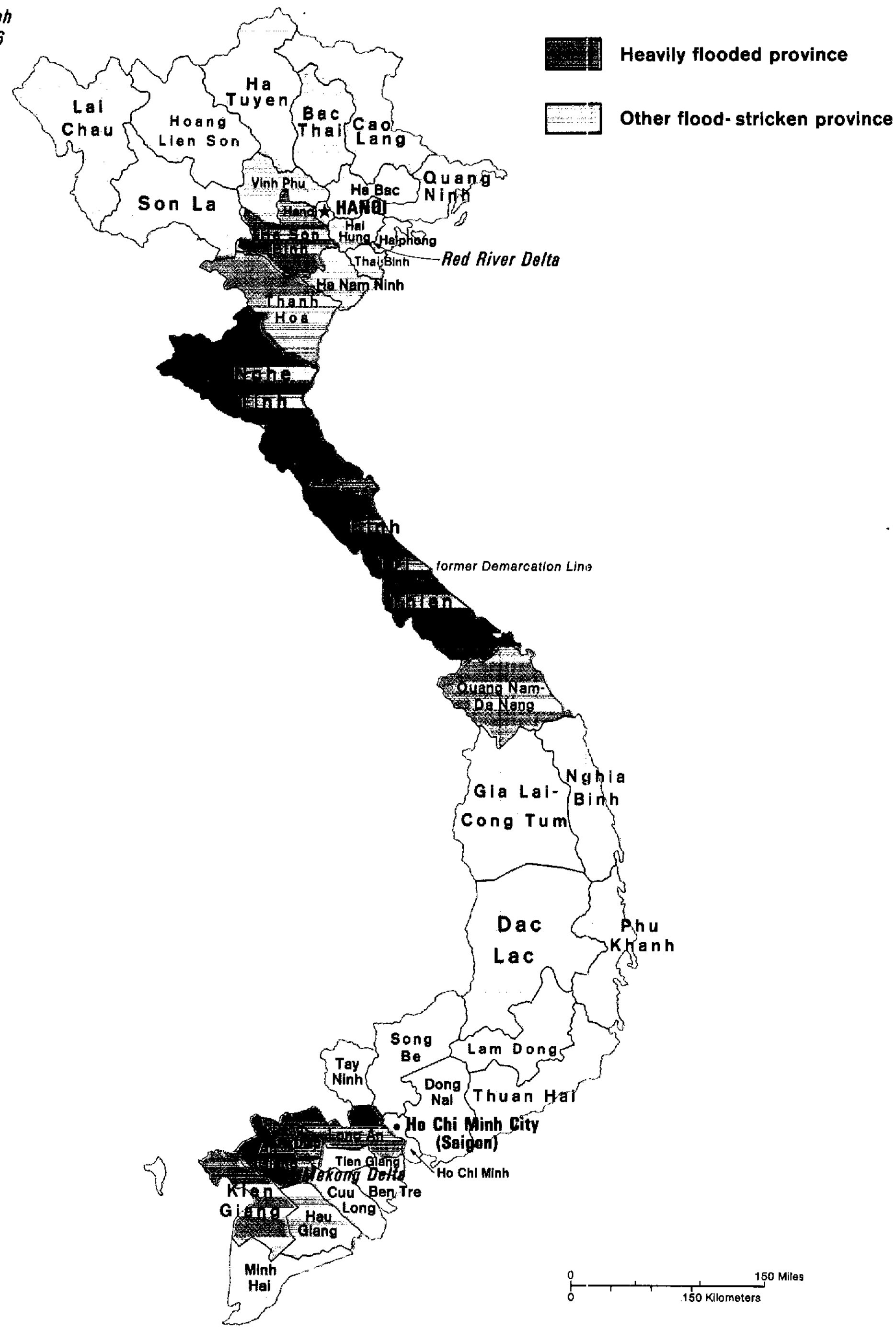
The Floods

From early August to mid-October, eight tropical storms—including five typhoons—struck the Vietnam coast. Some provinces got more rain in a few weeks than

* This article was prepared jointly by the Office of Economic Research and the Office of Geographic and Cartographic Research.

Vietnam Provinces*

**Based on map "Hanh Chinh Viet Nam," Hanoi, 1976*



577656 10-78

normally falls in an entire 5- to 6-month rainy season. As the storms passed westward across the Indochina peninsula, heavy rain fell in the Mekong River basin and caused severe flooding in Laos, Cambodia, and finally in southern Vietnam. The flat Mekong and Red River Deltas and the coastal plains of Vietnam are always threatened with floods between June and October. This year, however, typhoons and rainstorms have come in close succession and have dumped water not only in greater amounts but also farther south and inland.

Flooding has been most destructive and crop damage heaviest in southern Vietnam [redacted] in early September. As in the north, some flooding is an expected annual occurrence, but is usually not so damaging because the south is below the path of most typhoons in the region. Consequently, water control networks and emergency procedures are less sophisticated. Farmers and officials were caught off guard by this year's deeper and more widespread inundation and the slow drainage of heavy upstream runoff.

25X1

25X1

While damage is severe, the precise extent of flooding in Laos is less clear, and still less so in Cambodia. Lao officials claim that flooding in some provinces has been "the most severe of this century." The Mekong crested higher than in the very damaging floods of 1929 and 1966. Heavy rains and runoff have overtaxed the capacity of Tonle Sap Lake in northwest Cambodia to act as a natural flood regulator. Consequently, the flooded area below Phnom Penh may be substantially larger than normal.

Country Impact

Hanoi claims that nationwide flood damage—combined with earlier insect infestation—has resulted in the loss of 2.6 million tons of paddy rice, roughly one-fifth of the annual harvest. This probably overstates the loss. [redacted]

25X1

25X1

Although a lack of data precludes precise estimates, imports of 2.3 million to 2.8 million tons of grain may be needed over the next 12 months compared with an estimated 1.5 million to 2.0 million tons in the last 12. Hanoi has appealed for international emergency relief; even so, the USSR is expected to continue to provide or finance from other exporters the bulk of foodgrain imports as part of its program of economic aid to Vietnam. Already strained Vietnamese ports will be hard pressed to handle the burden of additional shipments.

Hanoi policymakers may be tempted to use the flood damage as an excuse to hasten socialization of the largely private Mekong Delta farming system. We have attributed Vietnam's inadequate rice production to Hanoi's inability to either absorb Delta farmers into the Communist fold or to offer sufficient incentives for farmers to grow rice much beyond subsistence levels as private producers.

The floods in Laos will compound the country's chronic problem of getting enough food. The government estimates that about 120,000 tons of rice imports will be needed to maintain consumption. Even in normal years Laos must import 75,000-100,000 tons of rice or other food grains.

According to a recent Phnom Penh broadcast, rice production in Cambodia has suffered a 10-percent loss from the floods. Consumers are already tightly rationed. The loss thus will mainly affect Cambodia's small rice exports.

Regional Supply-Demand Balance

The flood damage and consequent rise in import demand will have little impact on regional grain markets because other major producers in Southeast Asia—Thailand, Burma, Indonesia, and the Philippines—are enjoying good rice crops. Indonesia's import needs may be down more than one million tons from the 2.5 million tons imported in 1977. Traditional regional exporters—Thailand and Burma—would be able to supply a large share of Vietnam's needs if payment and credit terms can be arranged. In any event, the bulk of grain imported by Vietnam has been lower-cost wheat from the USSR, Australia, India, and other suppliers. World grain supplies are plentiful and even Vietnam's increased needs can be met with no serious market

25X1 dislocations.

* * * * *

Approved For Release 2004/07/28 : CIA-RDP80T00702A000900040002-6

National
Foreign
Assessment
Center

Economic Indicators Weekly Review

26 October 1978

ER EI 78-043
26 October 1978

This publication is prepared for the use of U.S. Government officials. The format, coverage and contents of the publication are designed to meet the specific requirements of those users. U.S. Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

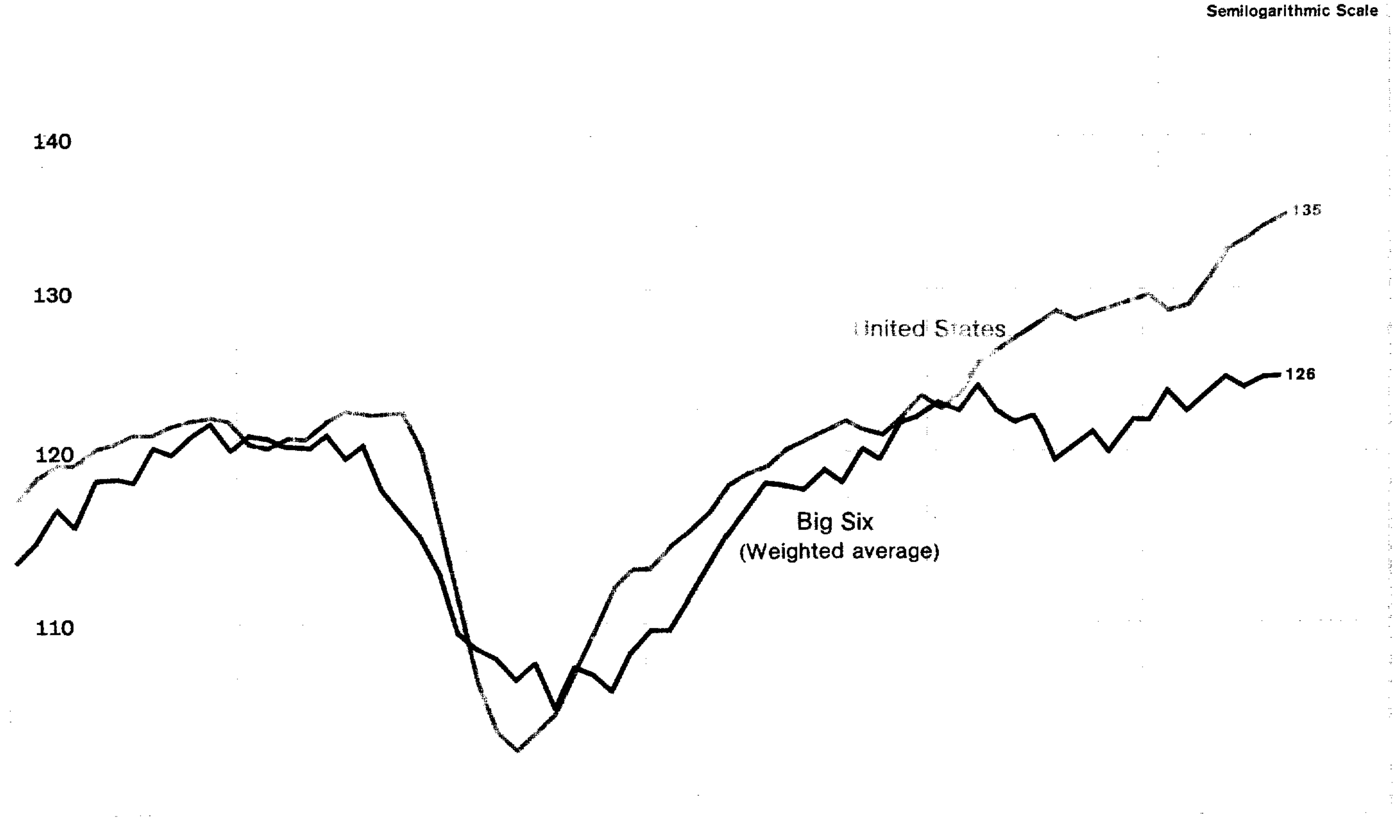
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production

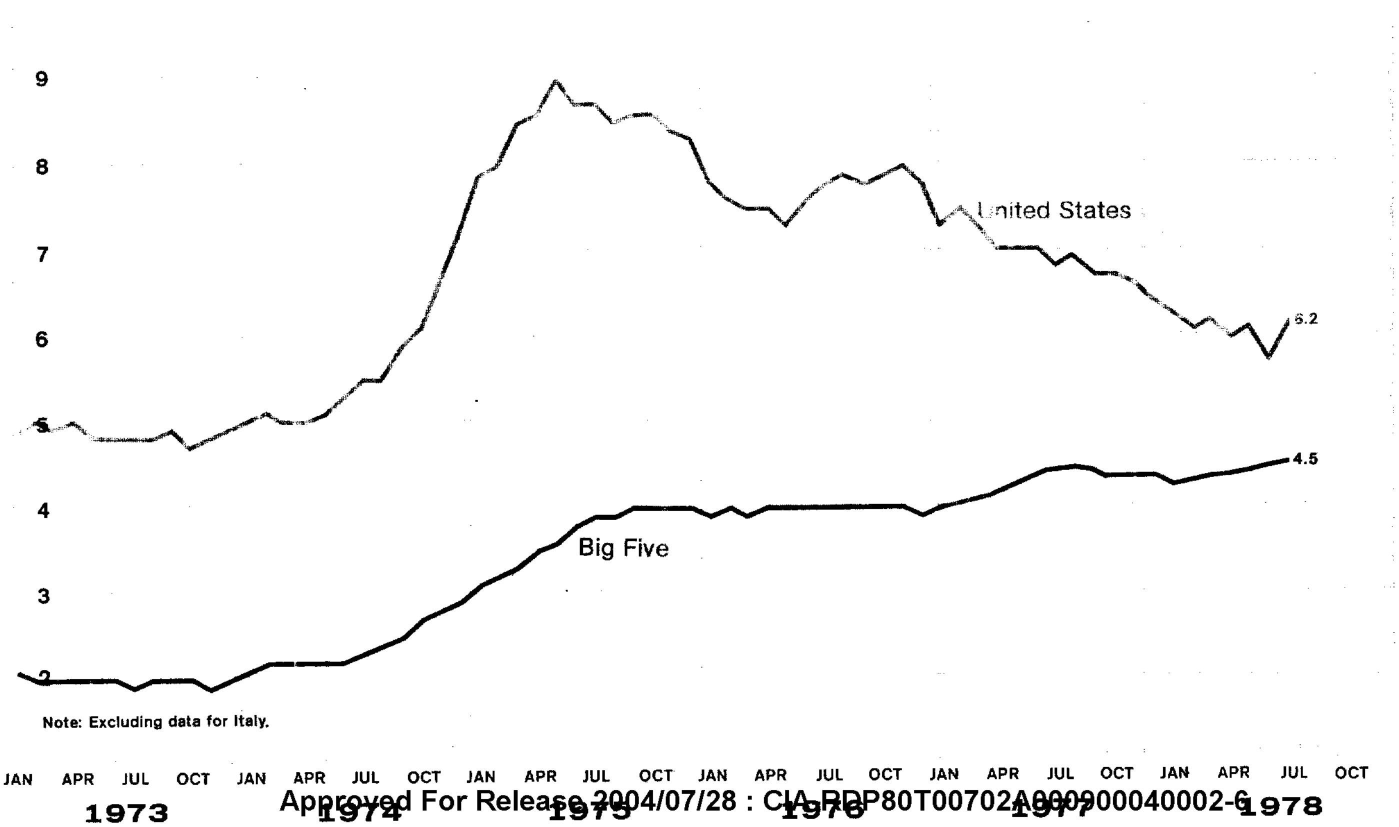
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

Percent

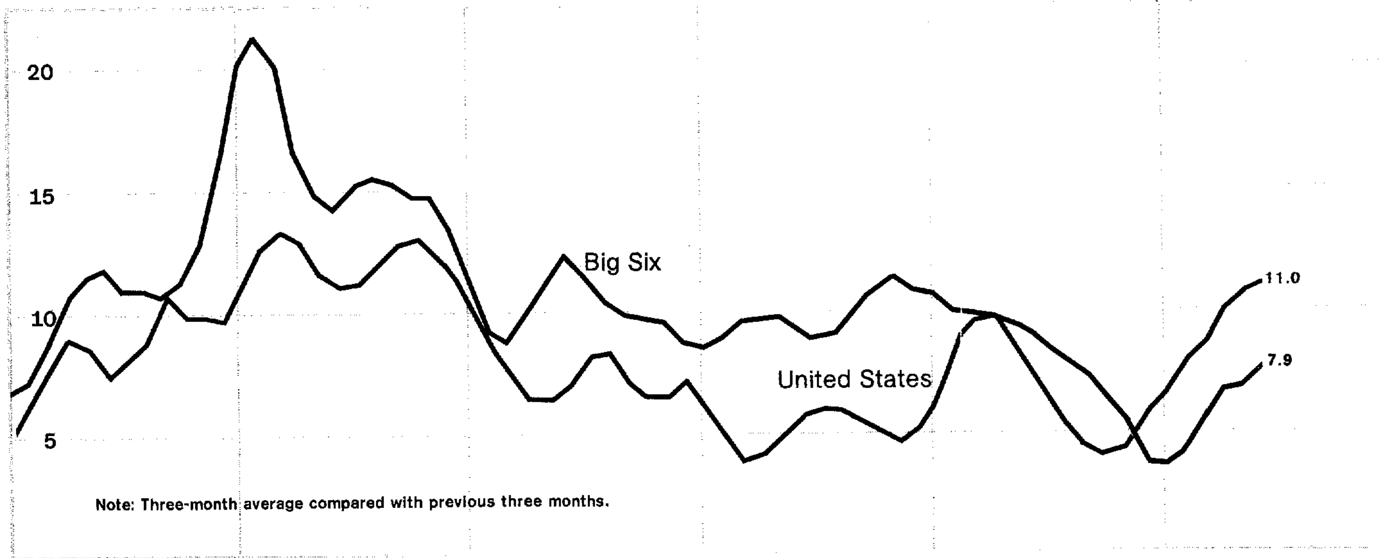


Note: Excluding data for Italy.

[1]Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

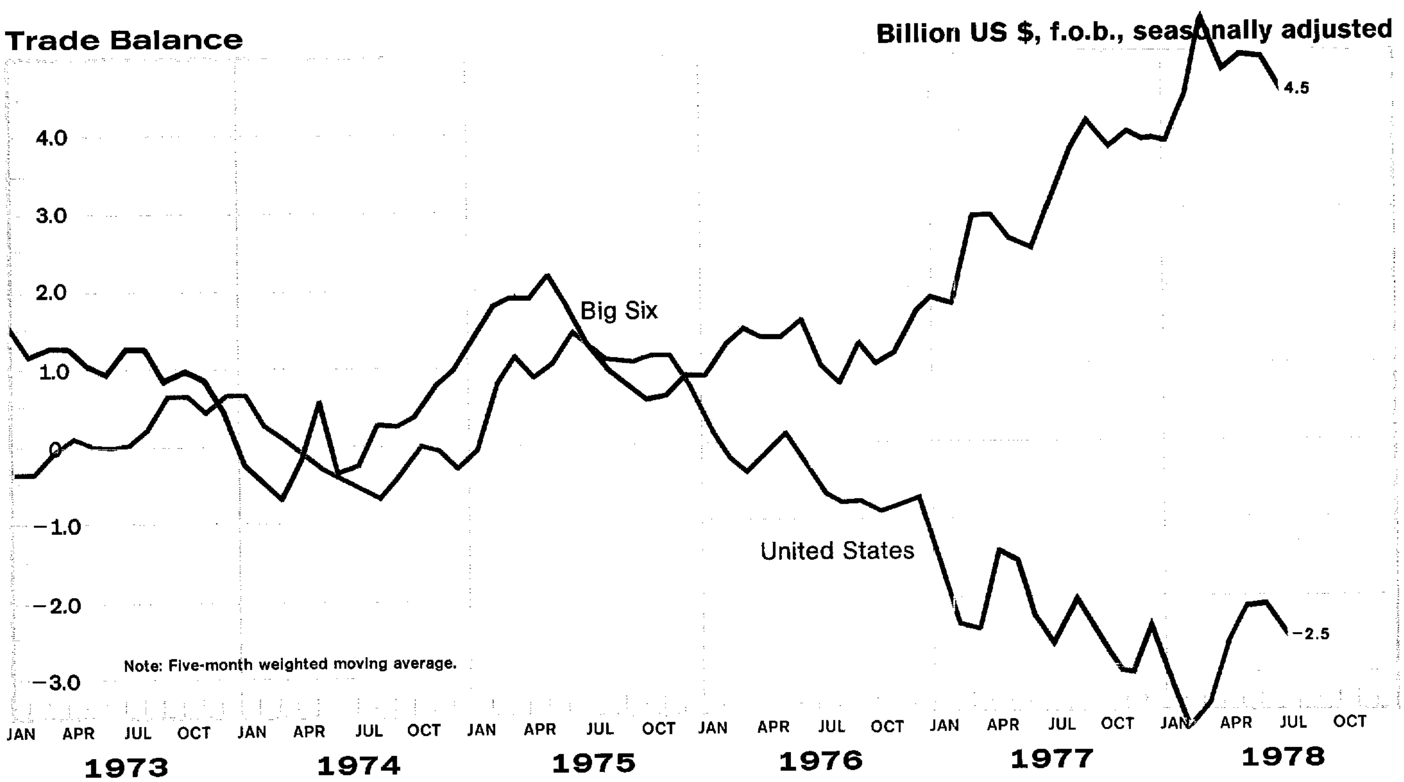
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

Billion US $, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	JUL 78	0.5	3.0	4.9	3.3
United States	JUL 78	0.7	3.8	5.2	11.2
Consumer Prices					
Big Six	JUL 78	0.9	9.2	6.6	7.9
United States	JUL 78	0.7	6.8	7.7	11.0

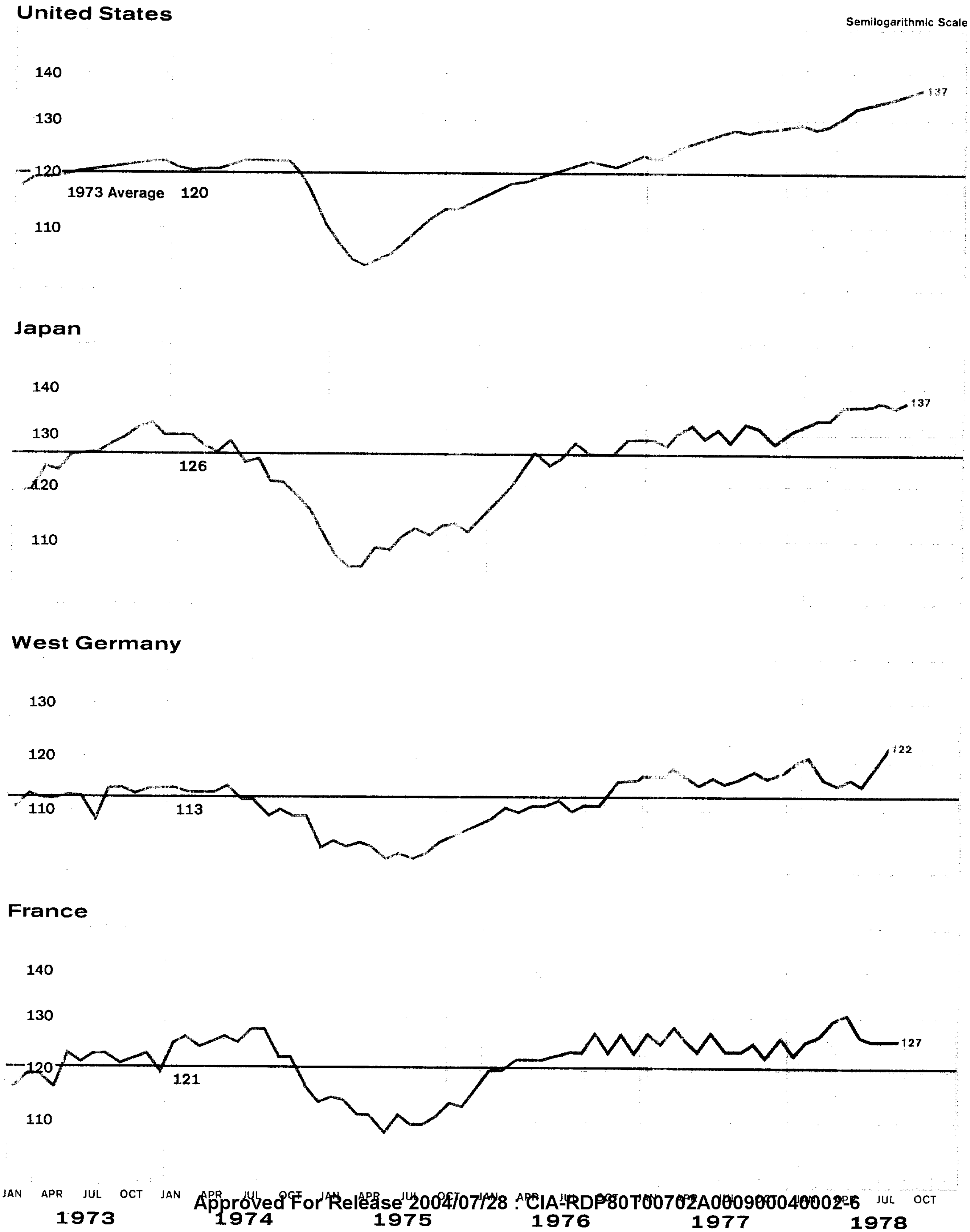
Unemployment Rate	LATEST MONTH		1 Year Earlier	3 Months Earlier
Big Five	JUL 78	4.5	4.4	4.4
United States	JUL 78	6.2	6.9	6.0

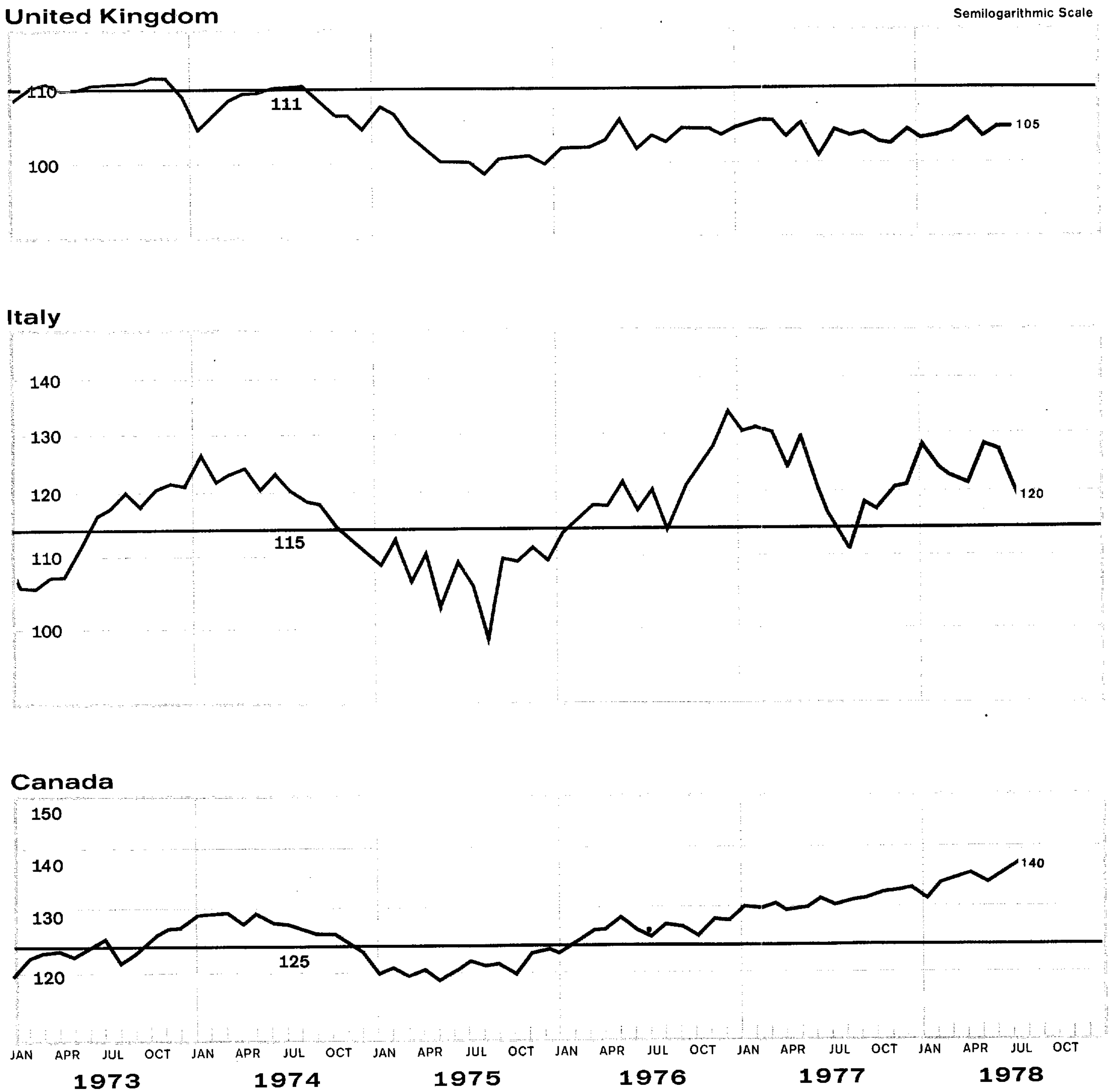
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	JUL 78	3,143	31,678	16,184	15,494
United States	JUL 78	−2,987	−19,355	−13,623	−5,732

577600 10-78

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted





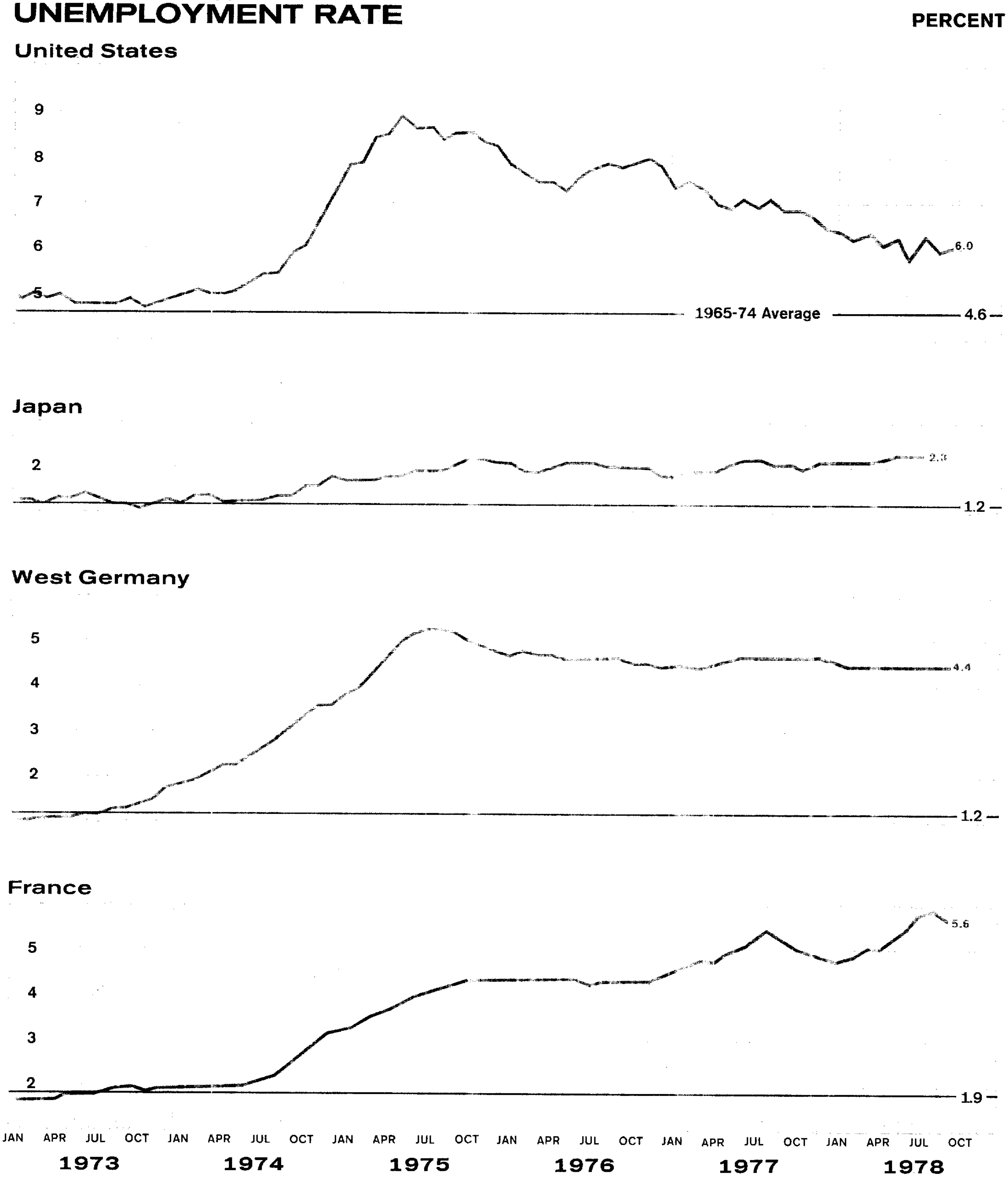
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier[1]
United States	SEP 78	0.5	3.9	6.5	7.7
Japan	AUG 78	0.8	4.0	5.5	1.3
West Germany	JUL 78	3.4	2.5	6.1	9.5
France	AUG 78	0	3.0	1.6	−7.1

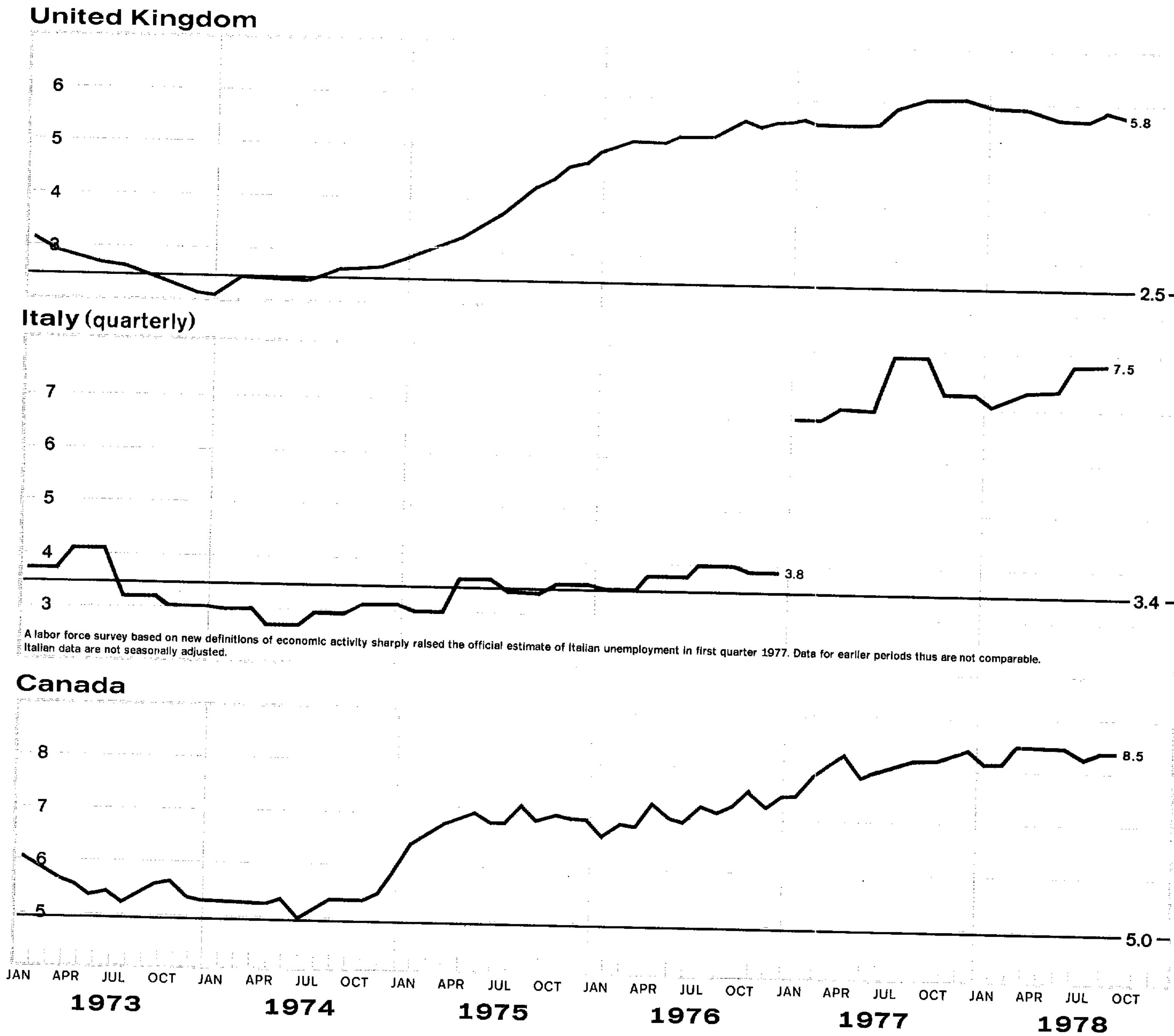
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	JUL 78	0	0.6	0.5	−0.1
Italy	JUL 78	−6.2	2.3	3.2	8.0
Canada	JUL 78	1.1	4.2	5.4	3.0

577602 10-78

[1]Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE





A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable.
Italian data are not seasonally adjusted.

THOUSANDS OF PERSONS UNEMPLOYED

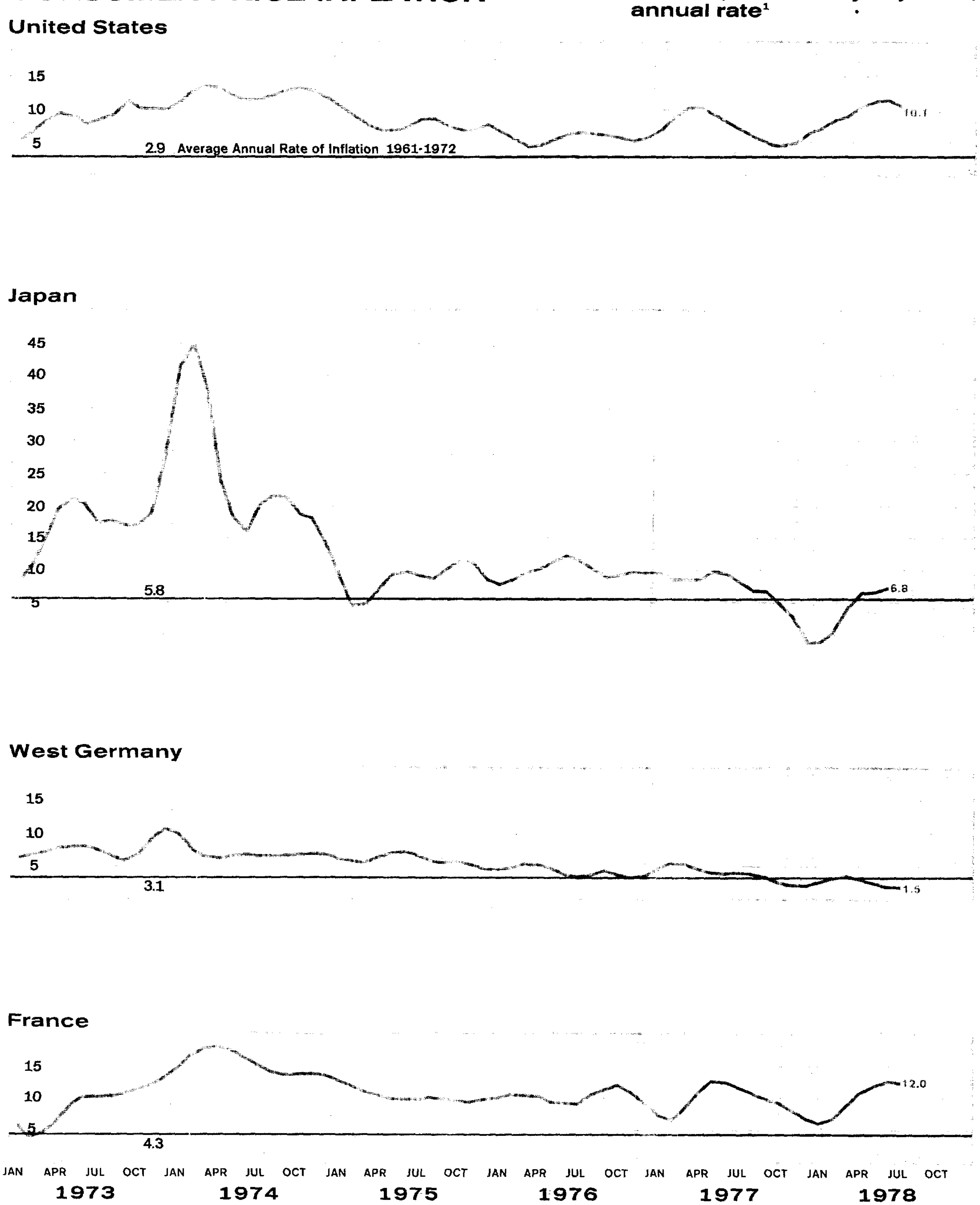
	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	SEP 78	6,002	6,668	5,754
Japan	JUL 78	1,260	1,200	1,220
West Germany	SEP 78	986	1,035	986
France	SEP 78	1,235	1,132	1,186
United Kingdom	SEP 78	1,378	1,435	1,365
Italy	78 III	1,658	1,692	1,455
Canada	SEP 78	946	887	944

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

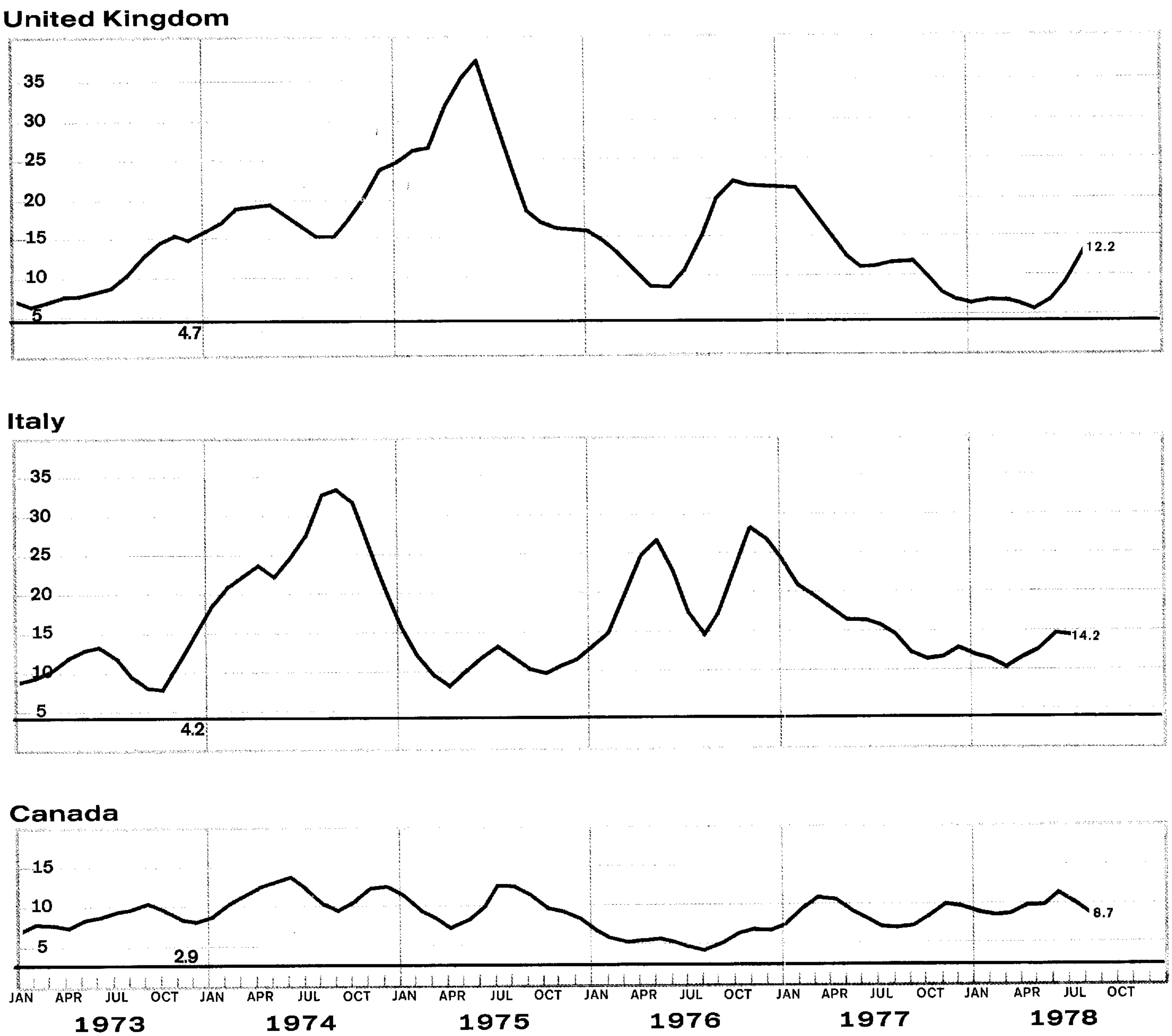
577604 10-78

CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]



[1]Three-month average compared with previous three months.



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	AUG 78	0.5	6.7	7.9	10.1
Japan	JUL 78	0.7	9.8	4.1	6.8
West Germany	AUG 78	0.1	5.1	2.1	1.5
France	AUG 78	0.7	9.1	9.4	12.0

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United Kingdom	SEP 78	0.9	13.2	7.8	12.2
Italy	AUG 78	0.6	13.1	11.9	14.2
Canada	SEP 78	0.1	7.6	8.6	8.7

577599 10-78

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	1.8	3.2	4.0	7.4
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	77 IV	−0.5	1.6	−1.1	−1.9
Italy	78 I	2.0	2.8	−0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	−0.3	3.1	3.5	1.9
Japan	Apr 78	4.0	9.9	4.3	24.8
West Germany	Jun 78	1.6	2.6	3.3	−3.2
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Aug 78	0.4	1.5	6.8	12.7
Italy	May 78	12.1	3.5	3.5	12.1
Canada	Jul 78	−1.2	3.8	3.2	−1.6

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	3.6	3.0	7.4	15.1
Japan	78 I	0.9	1.1	−0.4	3.6
West Germany	78 II	−0.5	1.2	7.8	−2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Apr 78	0.3	16.1	8.2	10.3
West Germany	78 I	0.9	8.9	4.3	3.9
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	84.0
Italy	Jun 78	0	20.1	15.5	13.8
Canada	Jul 78	1.0	10.7	6.7	4.7

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.
[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commercial paper	Oct 18	8.97	6.59	7.88	8.45
Japan	Call money	Oct 20	4.00	4.88	4.62	4.13
West Germany	Interbank loans (3 months)	Oct 18	3.88	4.10	3.76	3.69
France	Call money	Oct 20	7.13	8.38	7.25	7.00
United Kingdom	Sterling interbank loans (3 months)	Oct 18	10.56	4.85	10.40	9.18
Canada	Finance paper	Oct 18	9.64	7.24	8.27	9.05
Eurodollars	Three-month deposits	Oct 18	9.91	7.30	8.50	9.09

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	−0.4	9.6	9.5	15.7
Japan	Jul 78	1.2	11.7	27.0	39.1
West Germany	Jun 78	1.7	11.5	12.9	−4.0
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Aug 78	3.5	12.2	20.9	38.7
Italy	Jun 78	0.5	10.8	8.1	2.7
Canada	Jun 78	−0.3	8.3	1.9	5.0

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	−0.4	9.6	9.5	15.7
Japan	Jul 78	−5.8	3.8	−4.3	−8.8
West Germany	Jun 78	0.7	3.9	−0.1	4.9
France	Jun 78	0.6	8.8	5.3	−2.8
United Kingdom	Aug 78	1.0	15.1	8.4	6.9
Italy	Jun 78	−0.8	15.3	4.9	4.6
Canada	Jun 78	−0.3	9.2	7.7	2.2

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	0.6	12.6	7.3	2.9
Japan	Jul 78	−6.6	5.8	−20.9	−22.7
West Germany	Jun 78	−1.6	3.0	−5.9	−12.5
France	Jun 78	−0.6	9.1	0.2	−9.1
United Kingdom	Aug 78	−0.1	17.2	3.0	5.0
Italy	Jun 78	−0.7	18.7	1.8	2.4
Canada	Jun 78	−0.2	9.5	11.7	13.9

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Jun 78	18.9	14.5	19.2	19.2
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Jul 78	41.1	8.8	35.1	41.3
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Jul 78	17.6	2.8	13.6	17.7
Italy	Aug 78	14.9	4.7	10.5	12.2
Canada	Aug 78	4.2	9.1	4.8	4.7

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 I	−6,954	−6,954	−4,158	−2,796
Japan	Jul 78	2,050	10,879	4,630	6,249
West Germany	Jul 78	−868	2,831	1,406	1,425
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1,313
Canada	78 II	−1,201	−2,381	−2,658	277

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current Account and Long-Term Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States		No longer published [2]			
Japan	Jul 78	650	6,231	3,513	2,718
West Germany	Jul 78	−881	1,915	−2,363	4,278
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	−557	884

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 20 Oct 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	13 Oct 78
Japan (yen)	0.0054	42.50	37.67	4.53	1.61
West Germany (Deutsche mark)	0.5536	55.72	25.85	12.90	3.13
France (franc)	0.2384	7.45	15.71	4.49	1.43
United Kingdom (pound sterling)	1.9980	−19.19	13.04	3.68	0.78
Italy (lira)	0.0012	−29.90	8.63	4.05	0.41
Canada (dollar)	0.8444	−15.84	−7.34	−4.44	−0.07

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 20 Oct 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	13 Oct 78
United States	−4.96	−10.08	−2.40	−0.97
Japan	44.46	32.28	2.85	1.15
West Germany	36.96	7.84	5.44	1.82
France	−10.90	−2.90	−4.09	−0.27
United Kingdom	−30.09	−1.36	−2.49	−0.54
Italy	−43.65	−8.11	−3.45	−1.29
Canada	−17.87	−11.16	−5.66	−0.38

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade [1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES						
1975	107.65	46.94	16.25	10.77	3.37	29.82
1976	115.01	51.30	17.68	12.57	3.64	29.44
1977	120.17	53.92	18.53	14.02	2.72	30.98
1978						
1st Qtr	30.94	13.65	4.60	3.76	1.00	7.93
Apr	12.06	5.40	1.68	1.38	0.42	3.17
JAPAN						
1975	55.73	16.56	6.07	8.42	5.16	15.87
1976	67.32	22.61	8.59	9.27	4.93	17.84
1977	81.11	28.02	9.73	12.03	5.32	26.01
1978						
1st Qtr	22.11	7.83	2.39	3.35	1.32	7.22
Apr	7.89	2.80	0.80	1.19	0.57	2.53
WEST GERMANY						
1975	91.70	28.33	36.44	6.78	8.81	11.05
1976	103.63	33.44	41.86	8.25	8.72	11.04
1977	119.28	39.01	48.00	10.78	8.59	12.90
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.50
FRANCE						
1975	52.87	20.00	15.50	4.90	3.13	8.61
1976	57.05	22.49	16.15	5.08	3.23	8.75
1977	65.00	25.90	18.19	5.97	3.00	11.94
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
Apr	6.74	2.82	1.90	0.56	0.28	1.18
UNITED KINGDOM						
1975	44.03	12.55	16.59	4.55	1.56	8.64
1976	46.12	14.03	17.53	5.13	1.39	7.92
1977	57.44	16.99	22.56	6.78	1.63	9.48
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
Apr	5.75	1.73	2.19	0.74	0.18	0.91
ITALY						
1975	34.82	15.61	7.86	3.72	2.46	4.67
1976	36.96	17.41	8.69	4.23	2.18	3.96
1977	45.04	20.92	10.20	5.85	2.45	5.62
1978						
1st Qtr	10.80	5.25	2.37	1.37	0.48	1.33
CANADA						
1975	33.84	26.30	1.73	0.71	1.20	2.00
1976	40.18	32.01	2.03	0.81	1.25	2.09
1977	42.98	34.77	2.13	0.94	1.06	4.08
1978						
1st Qtr	10.75	8.78	0.55	0.23	0.22	0.97
Apr	4.20	3.44	0.16	0.08	0.07	0.45

[1] Source: International Monetary Fund, Direction of Trade.

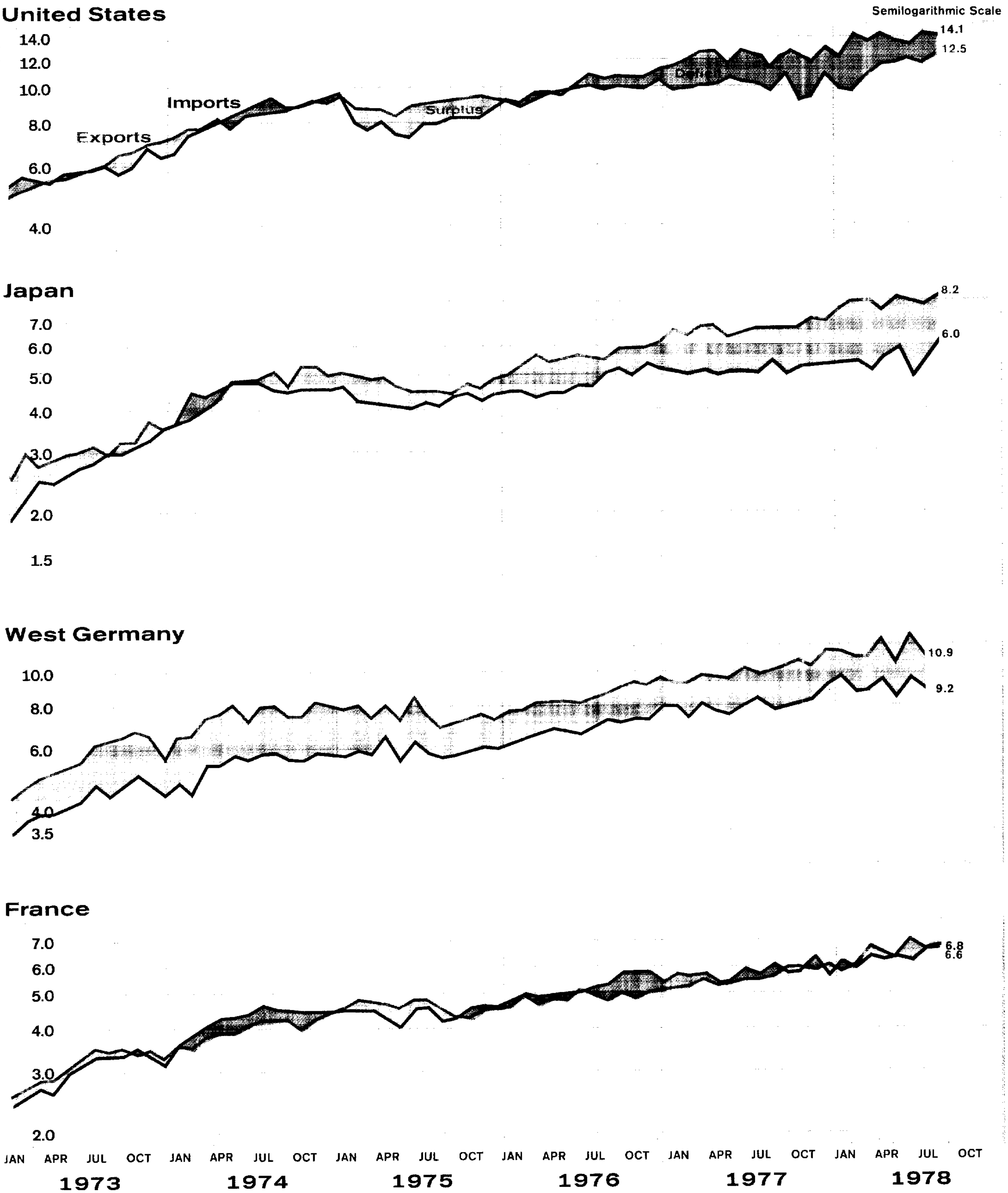
Developed Countries: Direction of Trade [1]

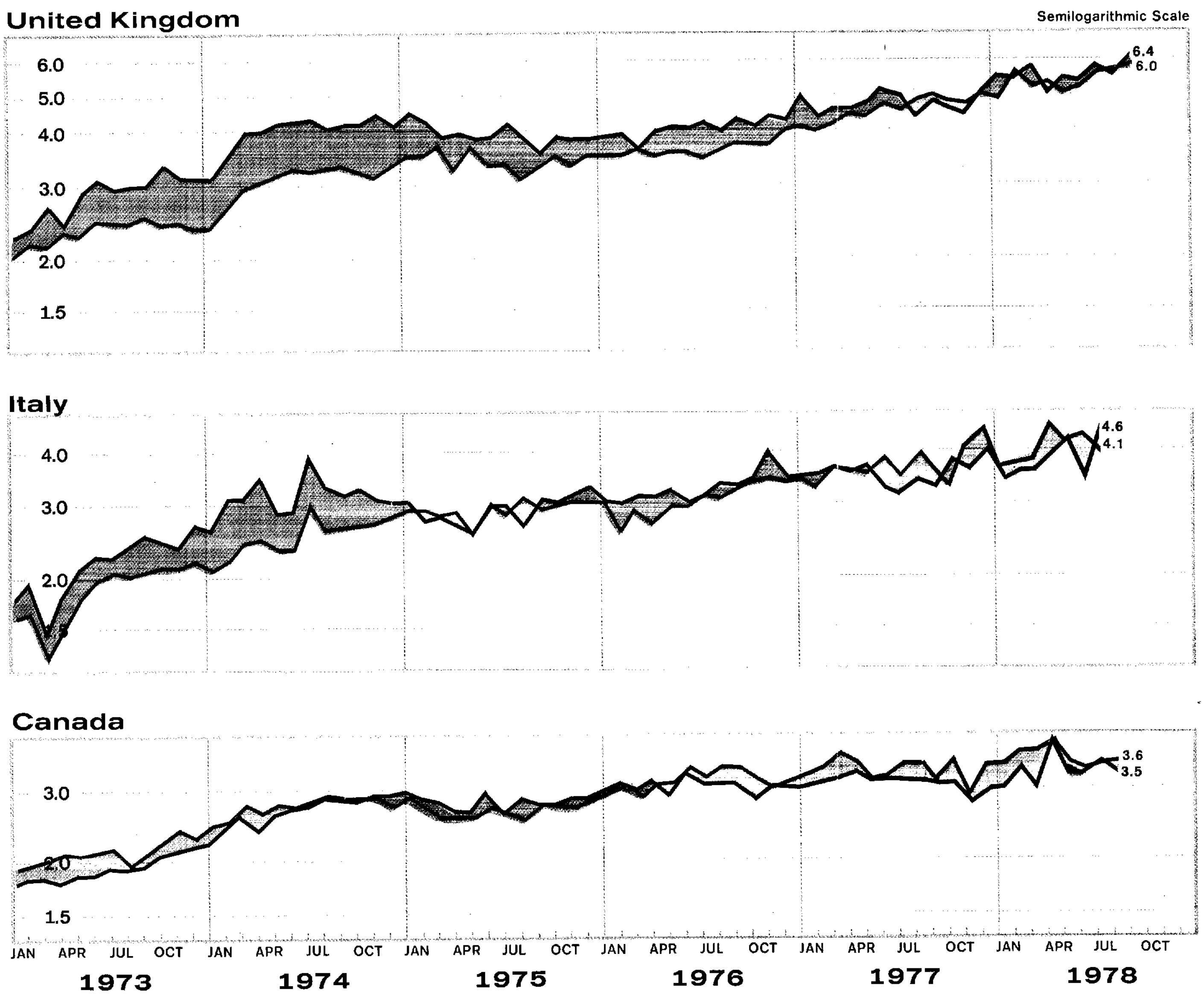
Billion US $

	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com- munist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.08
1976	129.57	60.39	9.75	27.17	1.16	31.09
1977	156.70	70.48	11.08	35.45	1.22	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
Apr	15.42	7.54	1.27	2.73	0.18	3.70
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.05
1976	64.89	17.58	7.78	21.88	2.91	14.72
1977	71.33	18.87	7.93	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.87	3.89
Apr	6.28	1.64	0.74	2.01	0.36	1.53
WEST GERMANY						
1975	76.28	27.09	27.78	8.24	4.87	8.21
1976	89.68	31.28	32.64	9.73	5.93	10.01
1977	102.63	36.38	37.37	10.12	6.14	12.62
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.54
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.21
1976	64.38	27.81	16.93	11.36	2.24	6.01
1977	70.50	30.28	18.24	11.82	2.46	7.70
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
Apr	6.79	3.02	1.84	1.00	0.23	0.70
UNITED KINGDOM						
1975	53.35	18.47	18.52	6.91	1.68	7.67
1976	55.56	19.66	18.81	7.29	2.08	7.65
1977	63.29	24.02	21.34	6.31	2.40	9.22
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
Apr	5.67	2.27	2.04	0.39	0.16	0.81
ITALY						
1975	38.36	17.32	6.75	7.85	2.09	4.34
1976	43.42	19.35	8.04	8.12	2.65	5.24
1977	47.56	20.80	8.67	9.03	2.80	6.26
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
CANADA						
1975	38.59	29.78	1.70	3.43	0.32	2.02
1976	43.05	33.55	1.82	3.48	0.38	2.56
1977	44.67	35.67	1.77	3.05	0.33	3.85
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
Apr	4.61	3.84	0.18	0.03	0.19	0.37

[1] Source: International Monetary Fund, Direction of Trade.

FOREIGN TRADE **BILLION US $, f.o.b., seasonally adjusted**



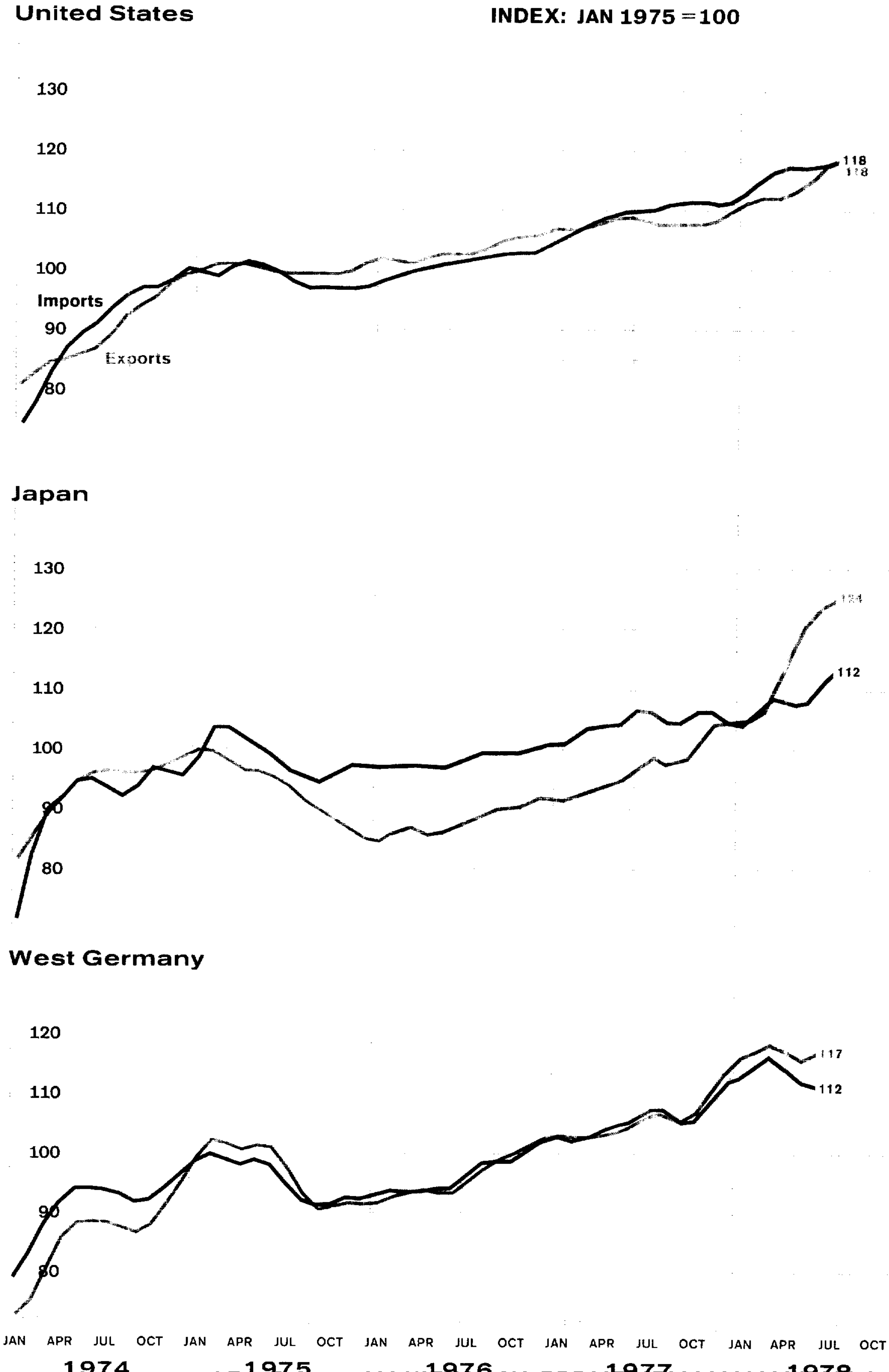


	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	AUG 78	12,469	90,625	80,316	12.8%
		14,090	111,601	96,366	15.8%
	Balance	−1,621	−20,976	−16,050	−4,926
Japan	AUG 78	8,146	62,499	51,820	20.6%
		6,023	43,994	41,055	7.2%
	Balance	2,123	18,505	10,765	7,740
West Germany	JUL 78	10,890	78,259	66,376	17.9%
		9,203	64,604	55,039	17.4%
	Balance	1,687	13,655	11,337	2,318
France	AUG 78	6,598	50,854	41,993	21.1%
		6,842	50,735	44,401	14.3%
	Balance	−244	119	−2,409	2,527

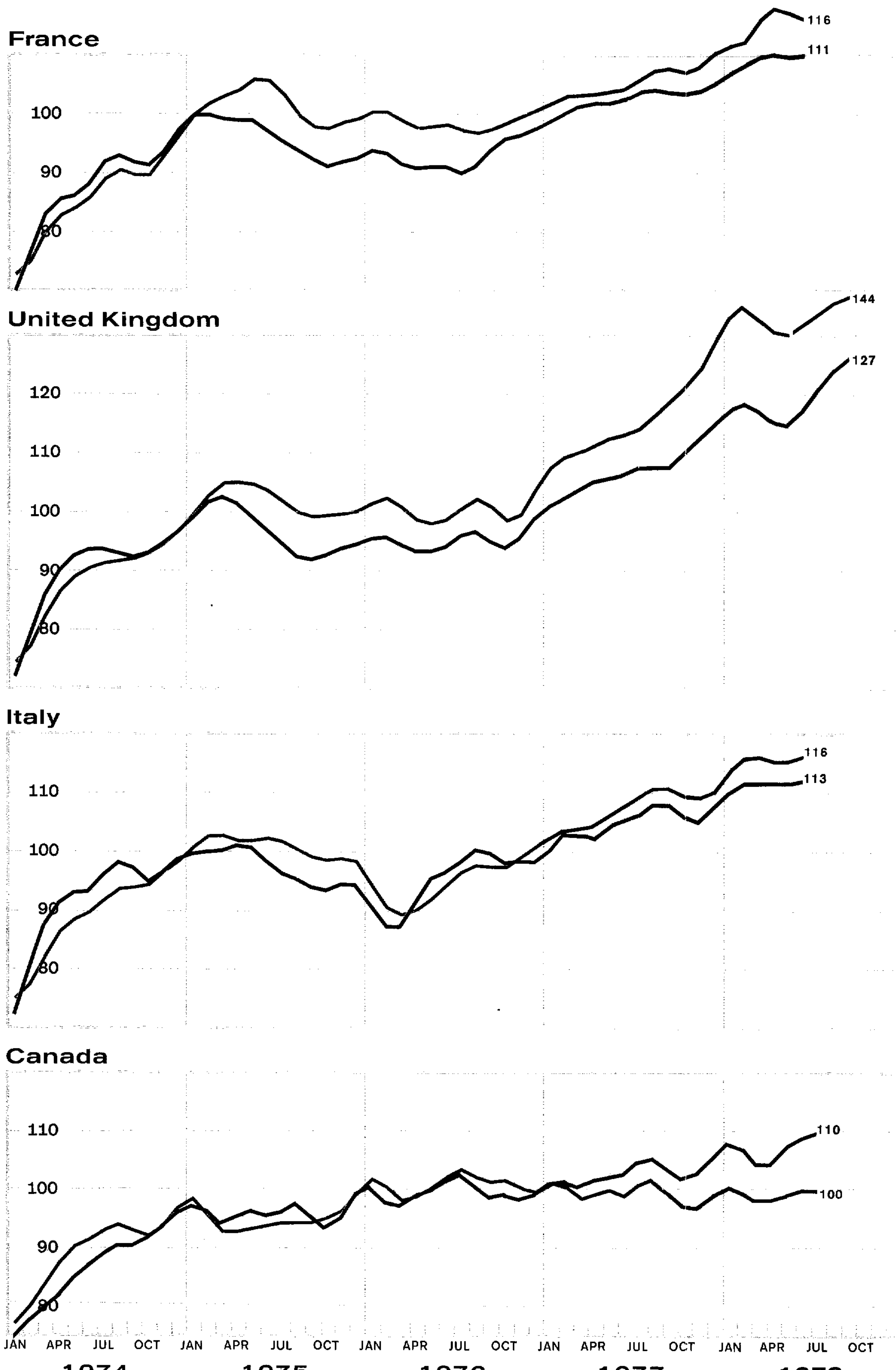
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	SEP 78	6,043	50,004	41,298	21.1%
		6,423	51,895	44,234	17.3%
	Balance	−380	−1,891	−2,936	1,044
Italy	JUL 78	4,096	28,849	25,115	14.9%
		4,626	27,456	25,501	7.7%
	Balance	−529	1,394	−386	1,780
Canada	AUG 78	3,640	29,739	27,962	6.4%
		3,478	28,071	26,672	5.2%
	Balance	162	1,668	1,289	379

577601 10-78

FOREIGN TRADE PRICES IN US $[1]



[1]Export and import plots are based on five-month weighted moving averages.


France
116
111
100
90
80
United Kingdom
144
127
120
110
100
90
80
Italy
116
113
110
100
90
80
Canada
110
110
100
100
90
80
JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1974
1975
1976
1977
1978

577603 10-78

SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	Jun 78	−2.8	5.2	5.4	21.1
South Korea	Jun 78	−1.2	22.5	20.1	26.5
Mexico	Apr 78	13.1	6.7	14.1	8.6
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Jul 78	1.9	16.1	36.1	46.6

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.2	13.0
Iran	May 78	0.4	29.0	21.4	66.2
South Korea	Jun 78	4.3	31.6	30.4	20.9
Mexico	May 78	3.9	20.8	33.0	24.9
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	−3.2	13.3	12.5	32.3

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	May 78	0.3	7.4	1.6
Iran	Jun 78	−0.1	12.2	10.2
South Korea	Aug 78	0.3	14.5	13.5
Mexico	Jun 78	1.4	15.0	17.3
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Jul 78	−0.3	9.7	3.0
Thailand	Jun 78	0.9	8.7	8.4

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	−2.8
Iran	Jun 78	−1.3	10.7	9.3
South Korea	Aug 78	0.1	15.7	10.9
Mexico	Jun 78	1.3	16.6	16.8
Taiwan	Jul 78	0	8.1	1.6
Thailand	Mar 78	−0.1	9.4	5.8

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	−2.7	10.0	18.4
Iran	Jun 78	0	30.8	0
South Korea	78 I	0.7	8.7	7.7
Taiwan	Jun 78	8.2	12.1	9.6
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Jun 78	6,140	1,006	4,559	5,823
Iran	Aug 78	11,949	208	11,561	12,468
South Korea	Jul 78	4,298	602	3,656	4,138
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Aug 78	1,872	148	4,611	2,609
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Aug 78	2,295	978	1,992	2,129

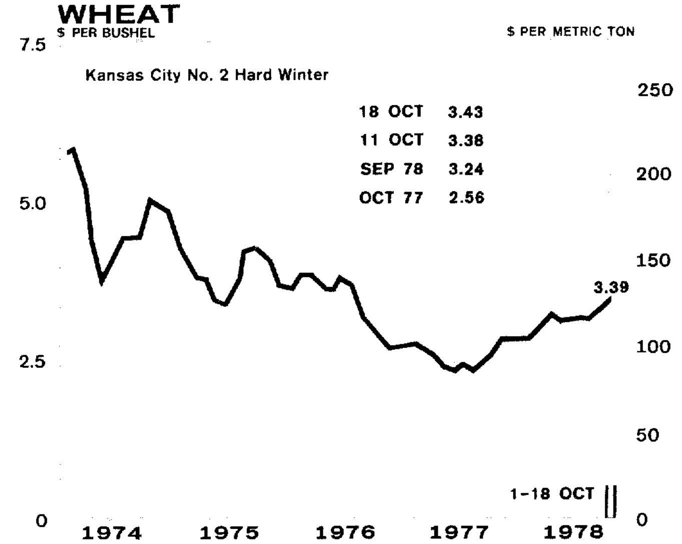
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier[1]	Latest 3 Months Percent Change from: 1 Year Earlier	Cumulative (Million US $): 1978	Cumulative (Million US $): 1977	Cumulative (Million US $): Change
Brazil	May 78	Exports	84.8	−3.7	4,743	4,979	−4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			−367	40	−407
India	Mar 78	Exports	−19.6	−13.5	1,476	1,707	−13.5%
	Mar 78	Imports	−24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	−358
Iran	Jul 78	Exports	49.4	14.0	13,913	13,562	2.6%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			−535	−344	−191
Mexico	May 78	Exports	−2.2	6.5	2,037	1,773	14.9%
	May 78	Imports	11.6	25.7	2,340	1,868	25.3%
	May 78	Balance			−304	−95	−209
Nigeria	78 II	Exports	86.7	−26.0	1,808	2,526	−28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			−974	368	−1,342
Taiwan	Jul 78	Exports	206.6	33.8	6,733	5,056	33.2%
	Jul 78	Imports	116.8	24.1	5,474	4,439	23.3%
	Jul 78	Balance			1,259	617	641
Thailand	May 78	Exports	21.9	4.5	1,609	1,506	6.8%
	May 78	Imports	105.7	21.3	1,908	1,624	17.5%
	May 78	Balance			−299	−117	−182

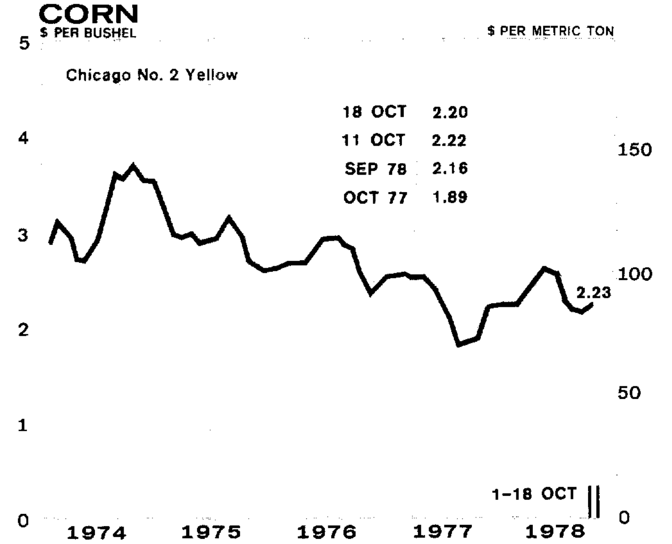
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

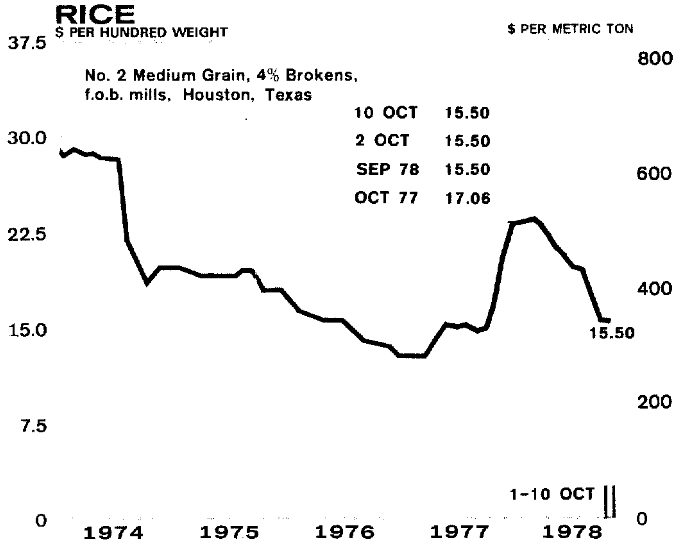
WHEAT



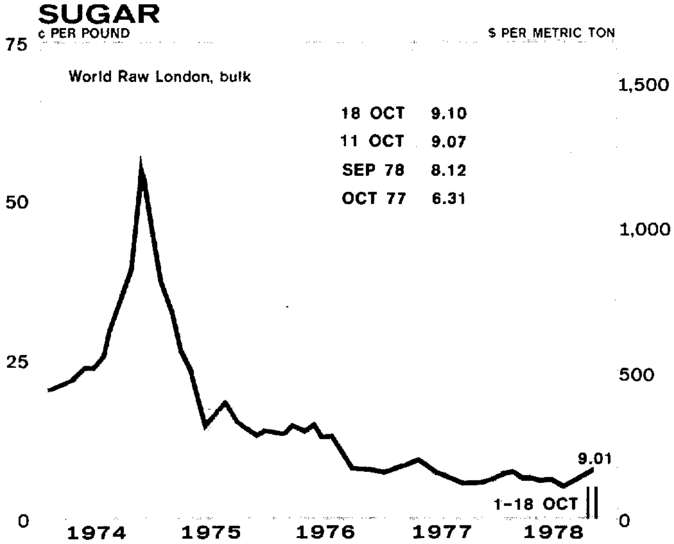
CORN



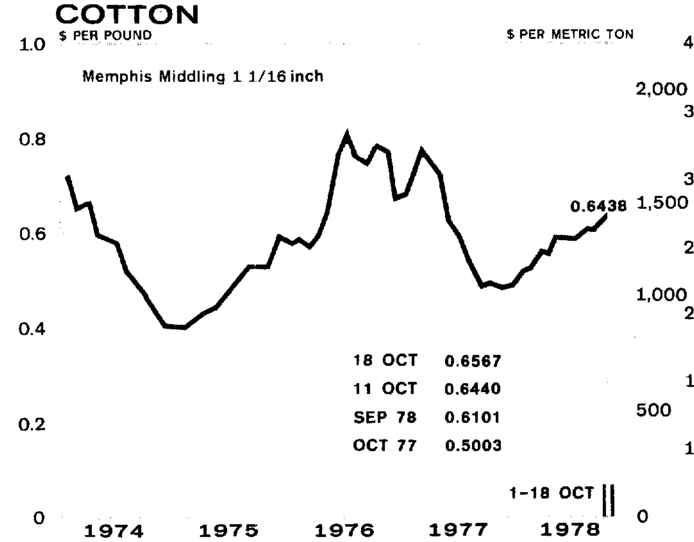
RICE



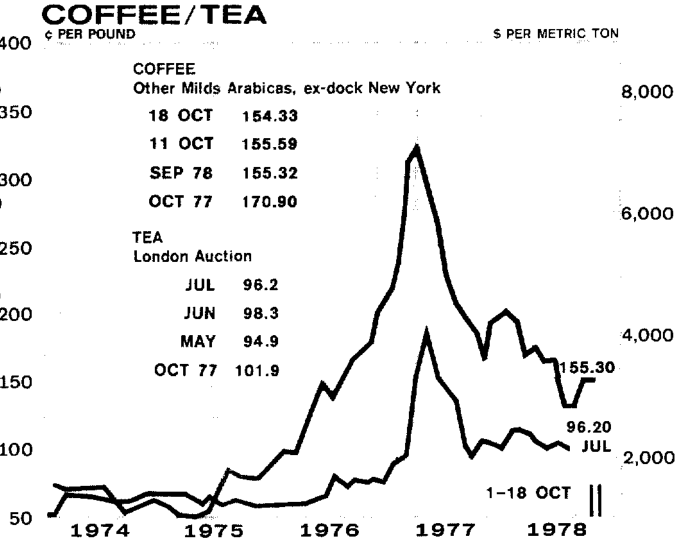
SUGAR



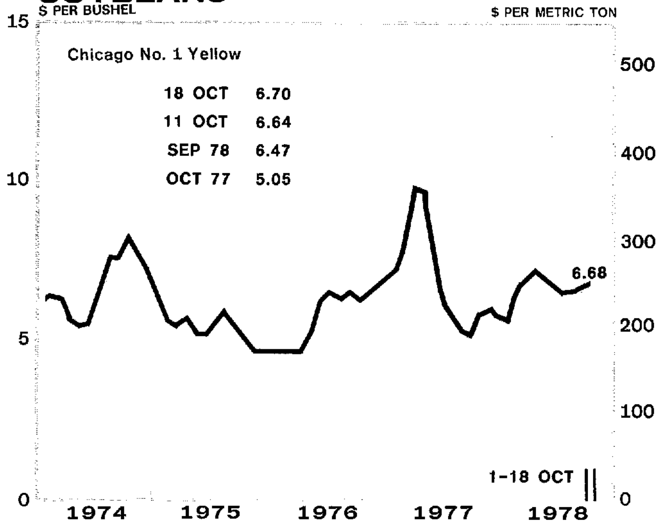
COTTON



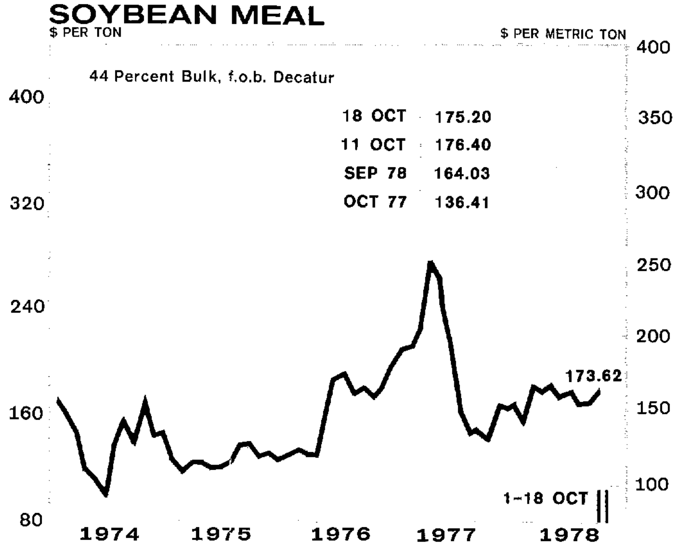
COFFEE/TEA



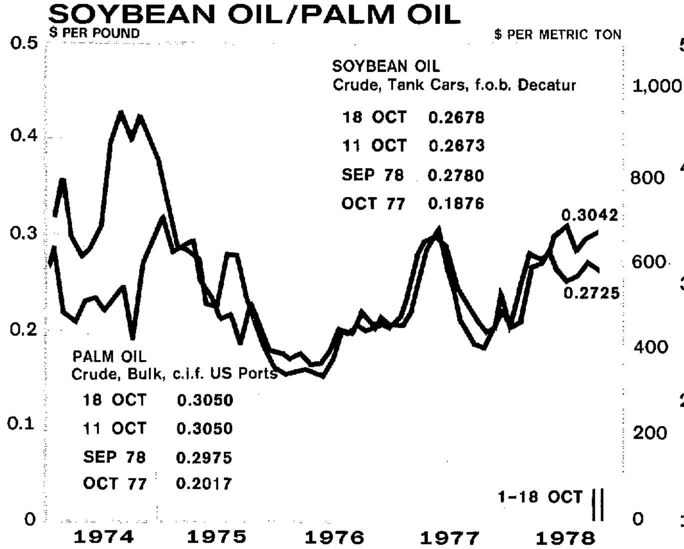
SOYBEANS



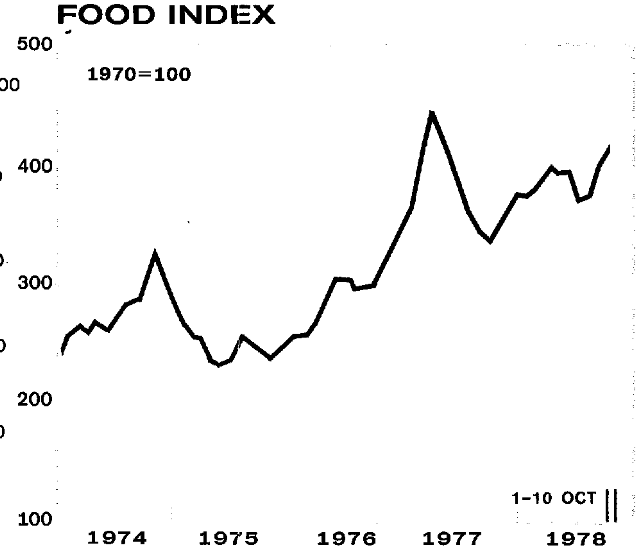
SOYBEAN MEAL



SOYBEAN OIL/PALM OIL

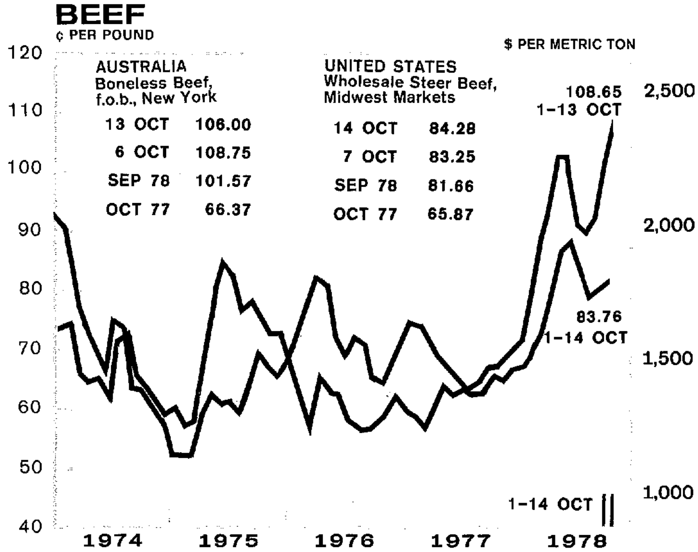


FOOD INDEX



577597 10-78

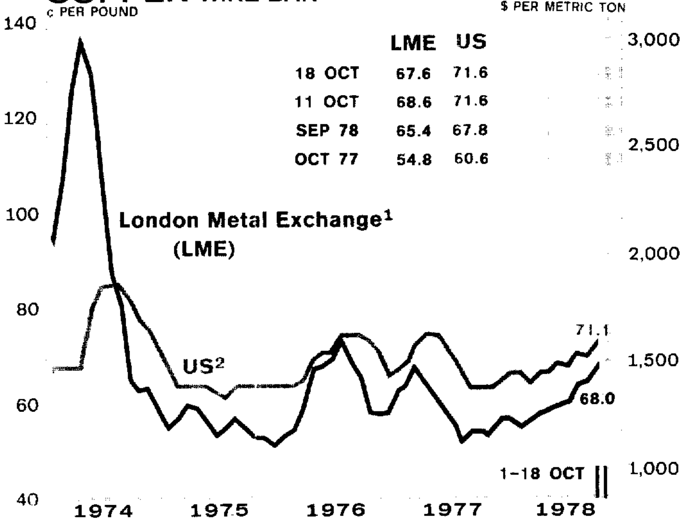
BEEF



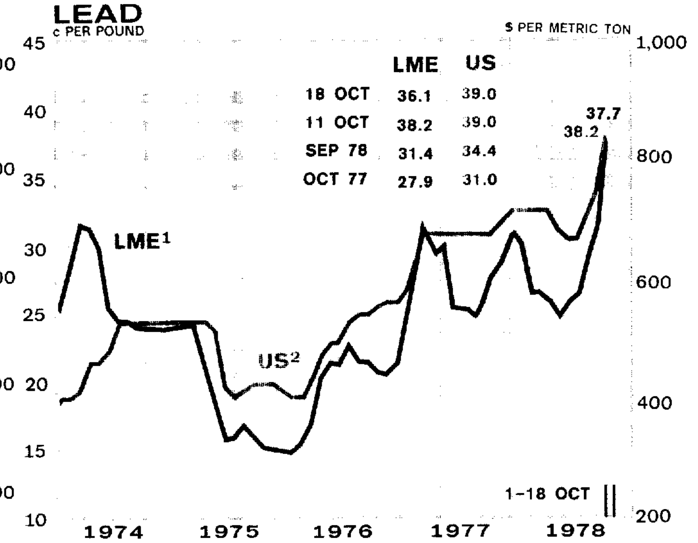
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

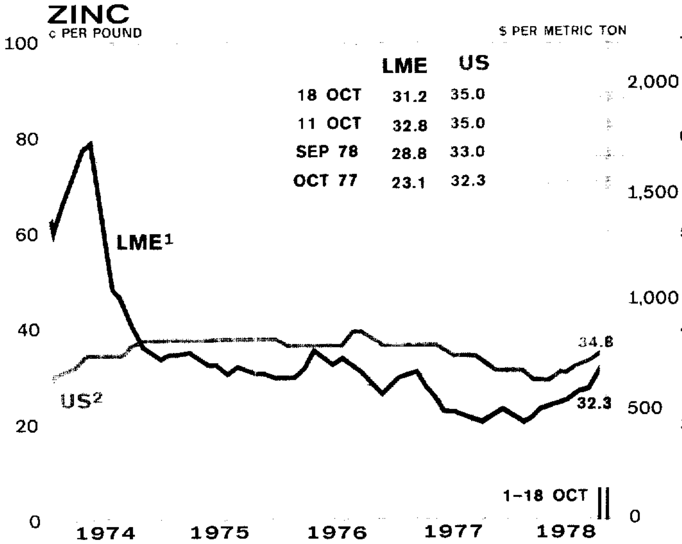
COPPER WIRE BAR



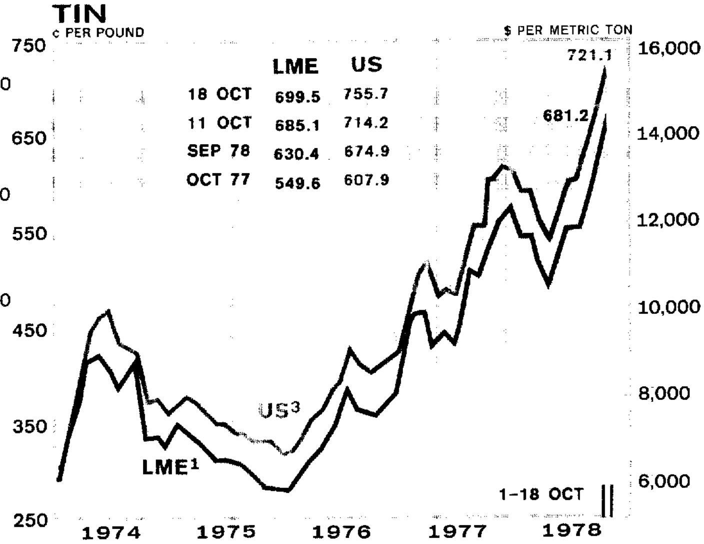
LEAD



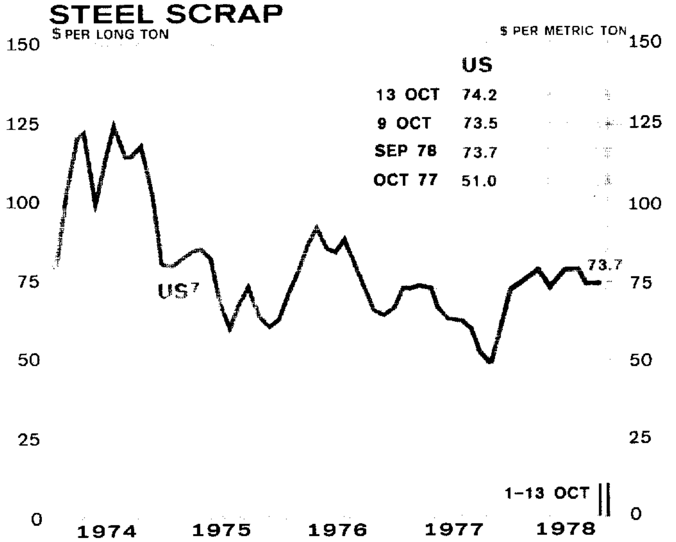
ZINC



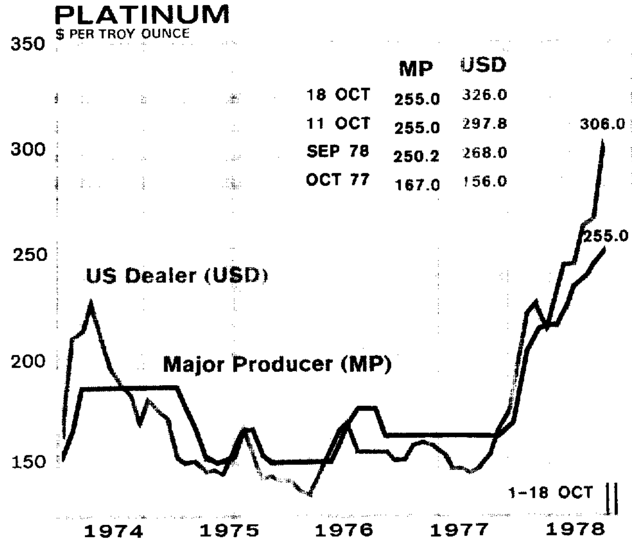
TIN



STEEL SCRAP



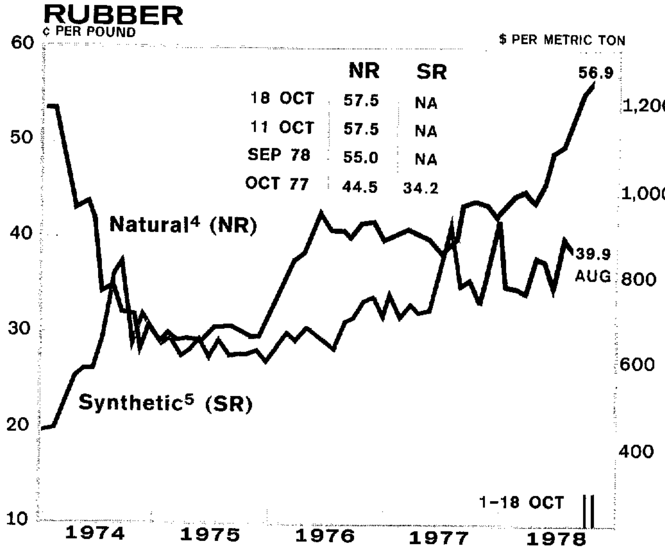
PLATINUM



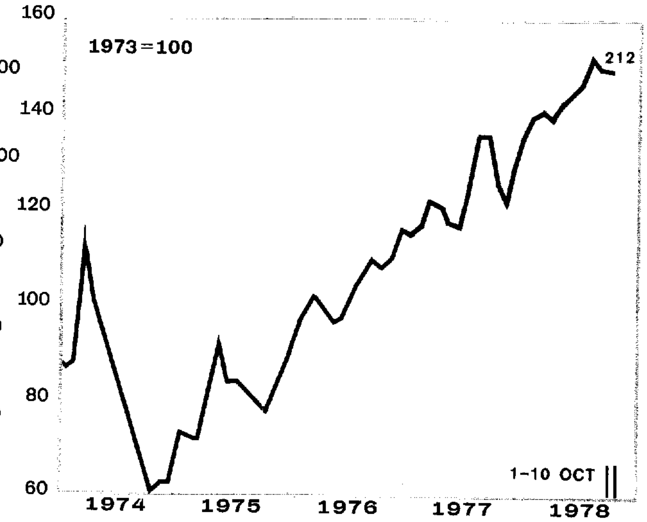
SELECTED MATERIALS

			CURRENT	APR 78	OCT 77	OCT 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	41.00	41.00	44.00
NICKEL	Composite US Producer	$ per pound	2.02	2.06	2.11	2.41
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	67.20	72.28	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	18,222.00	18,372.00	20,236.00	16,340.00
MERCURY	New York	$ per 76 pound flask	151.00	151.00	141.14	132.45
SILVER	LME Cash	¢ per troy ounce	593.18	515.88	476.67	421.55
GOLD	London Afternoon Fixing Price	$ per troy ounce	224.82	175.28	158.86	116.12

RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1]Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

577598 10-78